The impact of price satisfaction on supplier relationship performance

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Abstract

Price satisfaction is an important factor which influences buyer seller relationships. The literature on industrial buyer seller relationships has provided only limited discussion on the concept of price satisfaction especially from the suppliers' perspective.
The aim of this paper is to provide a detailed analysis of the concept of price satisfaction from a suppliers' point of view. We argue that like in consumer markets, industrial suppliers' satisfaction of price is a higher order construct with many dimensions and that each of these dimensions influences the firm's relationship performance.

Key words: Buyer- seller relationships, business to business, industrial, channel

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Introduction

In recent years, there has been an increasing realisation of the need for industrial buyers of goods and services to develop and maintain long-term relationships with their suppliers. This is especially true against the background that long-term relationships can have a number of beneficial effects such as cost reduction and improved efficiency (Gyau and Spiller, 2008; Kalwani and Narayandas, 1995). Benefits may be a consequence of reduced transaction cost, improvement in the level of information flow, as well as improvements in product quality and performance (Batt and Wilson, 2000). Establishing and improving buyer-seller relationships is therefore critical for industrial business partners in seeking out long-term sustainability in highly competitive industries (Weber, Current and Benton, 1991). In order to be successful, channel partners need to develop, maintain and seek improvements on the dynamics of a relationship within the supply chain.

One important factor that has been considered in many exchange relationships is price, which is the financial value that is given out in exchange for a product. The literature on consumer studies regarding price have argued that customers hold an internal reference price which serves as a standard against which newly encoded prices are compared (Diller, 2000; Matzler, Würtele and Renzl, 2006). The reference price therefore provides base for customers to determine their level of satisfaction with the exchange, the so called "Price satisfaction", which has been explored in detail by authors such as Diller (2000) and Matzler, Würtele and Renzl, (2006) in consumer markets.

However, the literature has not fully explored the concept of price satisfaction in industrial markets, especially from suppliers' points of view. Much of the literature on industrial supply chains has considered price satisfaction as a uni dimensional construct (e.g. Gyau and Spiller, 2007). In studies where the multi dimensional nature of price satisfaction has been recognised, only a few dimensions have been considered, leading to an insufficient understanding of price satisfaction from an industrial suppliers' perspective. The concept is particularly important against the background that from industrial suppliers' point of view, all activities of the marketing mix involve the outlay of resources except price which involves the inflow of resources (Martin-Consuegra and Esteban, 2007) and therefore, detailed understanding of this concept becomes critical in industrial relationships.

The aim of this paper is to address the gap in the literature i.e the price satisfaction concept from an industrial buyer/ seller perspective. We contribute to the buyer seller relationship literature by providing a model of price satisfaction dimensions in the industrial buyer supplier relationship context. Subsequently, the paper will address how these dimensions may influence inter firm relationship performance.

The remaining sections of the paper are organised as follows: First, we provide a literature review about the concept of price satisfaction and firms' relationship performance. Next we discuss the dimensions of price satisfaction and determine how they can influence firms' relationship performance in a B2B context. The paper concludes with a model of the construct and its implications for further research.

Literature review

Price satisfaction

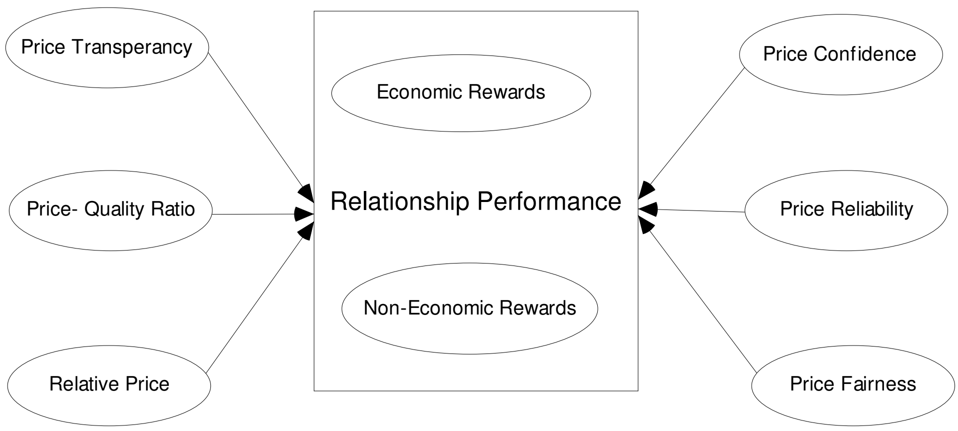
The marketing concept states that to achieve success an organisation should identify and satisfy consumer needs and wants more effectively than competitors (see Day, 1994; Drucker 1954; McCarthy, 1960). Furthermore the extant literature in marketing holds that consumer satisfaction is the main directive of marketing (Anderson *et al* 1994). This notion of consumer satisfaction is also connected to the concept of relationship marketing and the creation of long-term relationships which result in customer satisfaction, incorporating satisfaction relating to price and its various dimensions. Holding true to the notion of satisfaction is that price maintains a central role in the purchasing decision making process and post purchasing behaviour, which results in consumer satisfaction (Matzler, Würtele and Renzl, 2006). Consumer satisfaction is further linked to price issues as more than half of customers switch to competitors' products because of perceptions of price (Keaveny, 1995). While the notion of price is included in the scale items of many questionnaires (see Fornell *et al* 1996; Gyau and Spiller, 2007; Sternquist, Byun and Jin, 2004; Voss, Parasuraman, and Grewal, 1998) little attention is paid to the antecedents of price satisfaction and the nature of the construct items. Furthermore, the literature debates that price satisfaction is a higher order construct linked to a number of attributes related to price. Campbell (1999) suggests that price satisfaction is a consequence of price fairness and price perception, while Keaveny (1995) and Varki and Colgate (2001) discuss that price perception has an effect on satisfaction. Matzler, Würtele and Renzl, (2006) takes the discussion further by postulating that price satisfaction is a multi-dimensional, higher order construct with many dimensions.

However, the aforementioned literature regarding price satisfaction has exclusively been investigated from a business-to-consumer context (B2C) with no current literature discussing price satisfaction from a B2B context especially from the sellers' perspective. This is a particularly important concept as B2B actors' satisfaction, relating to the price they pay (or receive) for products they produce (or purchase), will potentially differ. In a B2B context, channel members are highly satisfied with the economic rewards that come from the relationship (such as price, or sales) and non-economic reward which relate to psychosocial gratification (Geyskens, Steenkamp and Kumar, 1999). Financial performance, related to Geyskens, Steenkamp and Kumar, (1999) economic rewards, constitutes short term outcomes in the buyer seller relationship and includes factors such as profit, cost and sales (Beugelsdijk, Koen and Noorderhaven, 2006; Gyau and Spiller, 2008; O'Toole and Donaldson, 2002). Non financial rewards, linked to Geyskens, Steenkamp and Kumar, (1999) psychosocial non-economic rewards, relates to behavioural dimensions such as satisfaction, commitment, communication and flexibility (O'Toole and Donaldson, 2002). Furthermore, the notion of channel member satisfaction and economic reward is also linked to relationship performance in a B2B context (Gyau and Spiller 2008). Relationship performance is also linked to financial and non financial performance in the relationship (O'Toole and Donaldson 2000, 2002). Therefore, channel member satisfaction (Geyskens, Steenkamp and Kumar, 1999) and relationship performance (Gyau and Spiller, 2008; O'Toole and Donaldson, 2002) are linked in that economic and non economic rewards are the basis for B2B exchange and can be linked to the construct of price satisfaction.

Dimensions of price satisfaction in inter firm relationships

This section of the article discusses the dimensions of price satisfaction in the context of business to business relationships. The authors based the discussion on the dimensions described in consumer markets and explain how such dimensions may be relevant from the industrial suppliers' perspectives. Subsequently, the authors postulate that these dimensions influence relationship performance. The model in Figure 1 summarises the discussion that follows.

Figure 1: Price Satisfaction and the Interaction of Relational Performance in a B2B Context



As information access and increased interaction by B2C consumers is a modern day norm (Urban, 2003), consumers are increasingly becoming more demanding on the honesty and completeness of information they receive on price (Matzler, Würtele and Renzl, 2006). The benefits of satisfying consumers by providing honest and frank information regarding prices are increased trust and satisfaction with the company (Urban, 2003). It therefore stands to reason that price transparency is a dimension of price satisfaction. In relation to price transparency in a B2B context, the information access and completeness of information is a non-economic reward concerned by the supplier. Industrial suppliers of some commodities especially agricultural products are often concerned about the price formula that is used by their buyers. Most price formulae take factors such as quality, quantity supplied, geographical location, length of relationship, nature of contracts etc into consideration (Schroeder *et al*, 1998). Thus two or more suppliers of the same commodities may receive different prices under some circumstances. This therefore makes it imperative for buyers to keep a high level of transparency concerning how prices are determined and paid so that some suppliers may not feel discriminated against. Suppliers are therefore more likely to be satisfied if they are provided with information on how buyers determine the price that will be paid for their product. Thus, higher levels of price transparency are therefore more likely to result in a higher level of suppliers' relationship performance.

Related to the discussion above is the dimension of price-quality ratio. Monroe (1990) has argued that from consumers' perspectives, value represents a trade off between the benefits they perceive in a product relative to the price they pay for it. The notion of the trade off between benefits and cost is pertinent to customer value. If perceived quality exceeds perceived costs, customer value is high and vice versa (Matzler, Würtele and Renzl, 2006). Therefore a favourable price-quality ratio (i.e. high customer value) will increase customer satisfaction (Lam *et al,* 2004; Matzler, Würtele and Renzl, 2006). In a B2B suppliers' perspective, the price satisfaction the partner receives is a trade off between the benefits and the cost of the product. In commodity markets, where grading of produce based on quality is a common practice, suppliers must be satisfied that the prices that they receive from their buyer reflecting the quality of the product (Schroeder *et al,* 1998). Thus, the price-quality ratio dimension as discussed from the consumers' perspective is also applicable to the supplier in a B2B context. Related to price-quality ratio is the notion of "value for money" (VFM). VFM is determined by a ratio between outputs (price/ money offered/obtained) and inputs (product offered) (Lam, 2008). The concept of VFM can be viewed as applicable to the buyer in the B2B context due to the trade off between the price paid for the quality of the product purchased (Raghubir, 2006) and therefore relates to the level of customer value obtained (Grace and O'Cass, 2005). For example, a high quality product obtained for a low price will increase the buyer's perception of VFM and therefore will increase their price satisfaction.

Matzler, Würtele and Renzl, (2006) postulate that in a B2C context, customers make price comparisons during the purchasing decision making processes. The price comparison refers to relative prices and is affirmed by a body of literature that indentifies the effect of comparative price claims on consumer perceptions of price (see Compeau and Grewal, 1994; Grewal, Marmorstein and Sharma, 1996). Therefore a relative price of a product directly influences consumer satisfaction and constitutes a dimension of price satisfaction. From the business suppliers' point of view, effects of relative prices may also influence the suppliers' overall satisfaction and performance. This is a result of the fact that suppliers' often compare prices which are offered by various buyers. Such comparison may lead to a reduced level of satisfaction if the suppliers' feel they could had obtained a better price from other buyers even when the absolute price that they receive is high. The opposite also holds for the supplier when the price comparison is favourable. Not only do suppliers compare prices with other buyers but also with the highest prices that they have received from the same buyer. Such a comparison will also enable suppliers to determine whether the price is also favourable and fair. Price comparison is linked to the fairness of the price and is exacerbated in asymmetrical power relationships whereby the price set by the buyer is more favourable to the buyer or seller due to the influence of market forces (Dwyer, Schurr and Oh, 1987). Therefore the power asymmetry in the relationship will dictate the level of price fairness experienced by the two actors. Diller (1997, 2000) postulates that consumers gain satisfaction from a price of a product if they believe that the offered price is favourable and fair. Thus, relative prices, price fairness and price confidence are therefore likely to influence the suppliers' overall price satisfaction

Another dimension of price that can be considered from suppliers' perspective and which may influence the overall price satisfaction is price reliability. The notion of price reliability further relates to confidence and is linked to price expectations and whether they are met or not (Diller, 1997; Matzler, Würtele and Renzl, 2006). Price reliability also relates to the idea that prices do not change unexpectedly and that the suppliers are informed in a timely manner. If price reliability is high then trust is built and a long term relationship is engendered; a tenant of relationship marketing. Reliable prices would enable suppliers to plan their activities and reduce the risk of financial loss when the prices they receive are relatively stable. This is especially the case in many commodity markets where price hedging is a common practice. Many buyers attempt to provide more reliable prices to their suppliers by hedging their prices or allowing them to trade in the future markets (Miller, 1980). Price reliability is also related to reference prices which are based on the past price of the same product at different occasions (Winer, 1986, Mayhew and Winer, 1992,). Therefore reference prices also affect price fairness as the reference price will also dictate whether the price is fair and acceptable.

Conclusion

The aforementioned discussion has shown that like in consumer markets, price satisfaction in B2B context can be considered a higher order construct with many dimensions and that each of these dimensions may influence the firms' relationship performance. The paper also argues that in B2C relationships, price satisfaction is linked to consumer satisfaction and is a result of the price establishment by the supplier, whereas in a B2B context price is invariably established by the buyer as evident in contractual agreements, spot market transactions and exacerbated by market conditions (potentially creation relationship power asymmetry,) which affects the dimensions of price satisfaction.

Therefore this paper's contribution to the literature is the notion that the theory of price satisfaction in the B2C relationships is also applicable in many respects to the industrial suppliers' satisfaction of price. In a B2B context, price is invariably set by the buyer and subject to market conditions, such as production over/ undersupply (which can result in relational power asymmetries) and is also influenced by the nature of the market structure. Price satisfaction can be posited as a result of economic rewards, imbedded in relationship performance, which can be connected to the dimensions of the price satisfaction concept as illustrated in Figure 1.

However, our study is limited as the above formulations are purely based on literature argument for the case of industrial markets. Future research should therefore develop a measurement scale for the price satisfaction dimensions in the B2B context through exploratory studies. The validity of the dimensions can then be tested by collecting empirical evidence from industrial suppliers concerning their attitudinal response to these variables, and analysed through confirmatory factor analysis and the relationships between the variables can be modelled via techniques such as structural equation modelling (SEM).

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