Institute for Market-Oriented Management
Competence in Research & Management
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IMU Research Insights
003

The Profit Impact of Price Fairness in Buyer-Seller Relationships

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Executive Summary

Relevance of Study

- The profit implications of price fairness for B2B-suppliers are ambiguous
- Industrial customers exploit fair behavior by demanding price concessions
- At the same time, fairness is central to the continuity of successful buyer-seller relationships in B2B-markets

Investigated Industries

- Machine Building, Metal Processing, Logistics, Electronics, Chemicals, Utilities, Food and Stimulants, Textiles, Synthetics, and Software

Key Contributions

- Suppliers in B2B-markets should be aware of the fact that price fairness perceptions of their customers influence their profitability.
- Fair prices (distributive price fairness) and fair price-setting processes (procedural price fairness) generally have a positive impact on the profitability of suppliers in buyer-seller relationships.
- Fair behavior in personal price-related personal interactions (interactional price fairness) generally has a negative impact on the profitability of suppliers in buyer-seller relationships.

Sample & Method

- 150 supplier and customer surveys (total of 300 surveys)
- Executive employees in sales (supplier; e.g. head of sales) and purchasing (customer; e.g. head of purchasing) or management
- Average work experience of the supplier (customer) representatives is 13.7 (12.5) years
- Descriptive statistical analysis using SPSS and structural equation modeling

Findings

- The study participants attribute great importance to fairness and price fairness in buyer-seller relationships
- Price fairness in B2B-markets can be viewed as a three-dimensional concept: distributive, procedural, and interactional price fairness
- Prices in the textiles, synthetics, and electronics industries are perceived as fairer by customers than prices in other industries
- Price-setting processes from suppliers in the textiles, food and stimulants as well as software industries are perceived as the most fair
- Especially in machine building customers perceive the price-related interaction behavior (e.g. in price negotiations) of suppliers as fair
- Distributive and procedural justice have positive, interactional justice negative profit implications for suppliers
- The impact of the price fairness dimensions on the customer's willingness to pay is context-specific

Agenda

- Topic Relevance and Key Questions
- Study Characteristics
- Study Results
- Managerial Implications
- Contact and Further Information

The profit implications of price fairness for suppliers in buyer-seller relationships are of an ambiguous nature

"Fair pricing is a prerequisite for success in our business – our customers inherently expect and also reward fair pricing."

- Head of Sales, Metal Processing Industry -

"Being fair with respect to prices can backfire – it certainly has for us as some customers have tried to exploit our behavior."

- VP KAM, Construction Industry -

- Industrial customers exploit fair behavior by demanding "price concessions from the supplier" (Brennan, Canning, and McDowell 2007, p. 221)
- "A strategy of unconditional cooperation invites exploitation by casting the strategist [supplier] as fair but weak" (Friedland 1990, p. 303)
- **BUT**: Fairness is central to the continuity of successful buyer-seller relationships in business-to-business markets (Kumar, Scheer, and Steenkamp 1995; Scheer, Kumar, and Steenkamp 2003; Walter et al. 2003)

The study participants attribute great importance to fairness and price fairness in buyer-seller relationships

Supplier

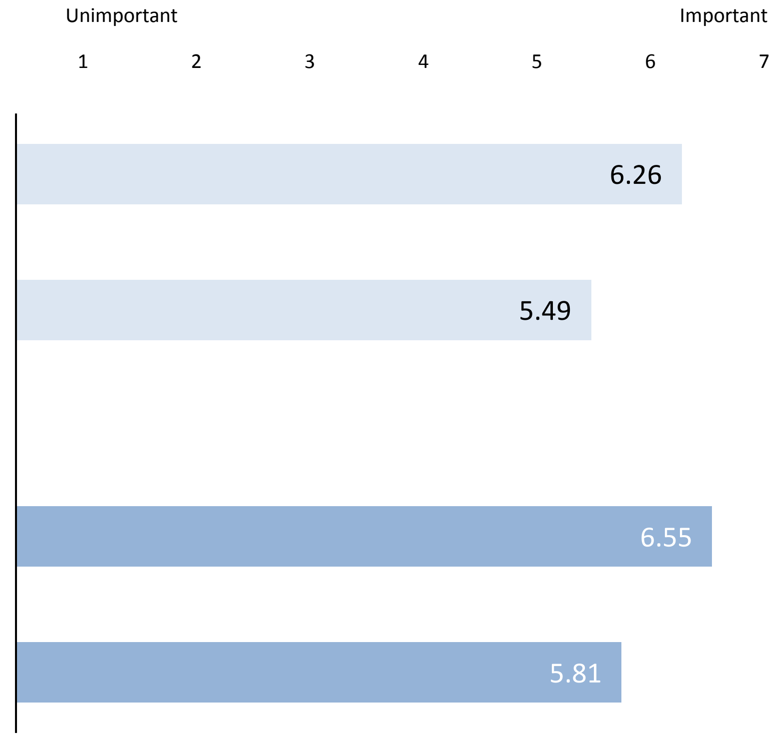
In comparison to other elements of a business relationship **fairness** in general is…

In comparison to other elements of a business relationship **price fairness** is…

Customer

In comparison to other elements of a business relationship **fairness** in general is…

In comparison to other elements of a business relationship **price fairness** is…



This study addresses four central questions

1. What constitutes price fairness in buyer-seller relationships?
2. Does price fairness pay off for suppliers in buyer-seller relationships?
3. What factors influence the profit relevance of price fairness in buyer-seller relationships?
4. What are the managerial implications of the study results?

To answer the questions a large-scale telephone survey was conducted resulting in 150 matched buyer-seller dyads

Method

- Telephone survey
- Open and closed questions
- Length: ~ 30 minutes
- Cooperation with market research institute

Sample

Unit of analysis:

- Buyer–seller relationships

Target group:

- Supplier and customer firms in buyer-seller relationships
- Executive employees in sales (supplier; e.g. head of sales) and purchasing (customer; e.g. head of purchasing) or management

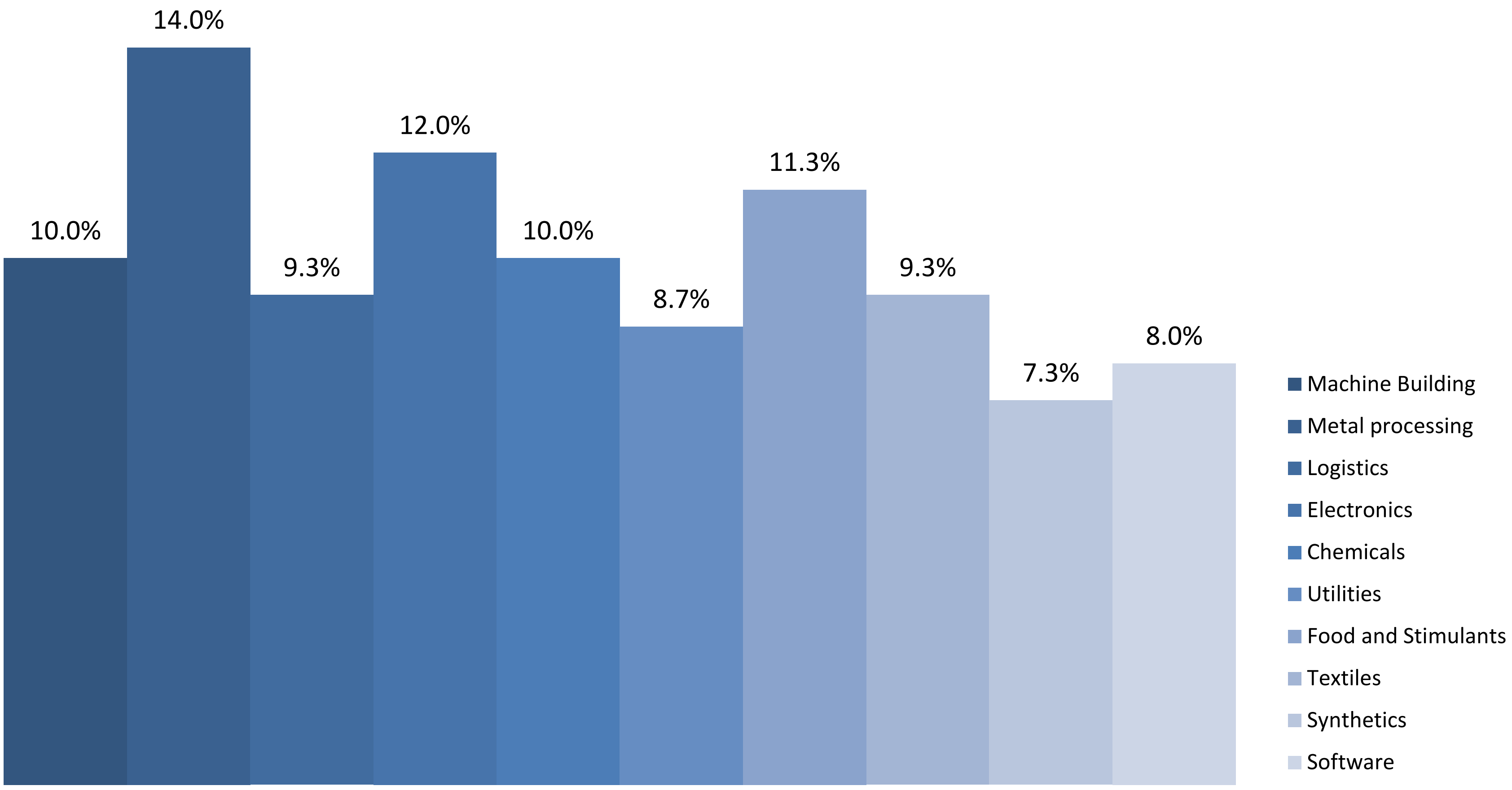
Observed industries:

- Cross-industry study: machine building, metal processing, logistics, electronics, chemicals, software, utilities, etc.
- Sample: 150 supplier and customer surveys (total of 300 surveys)

Data Characteristics:

- Average age of the business relationship = 4.2 years; average length of the personal interaction between the customer firm and the supplier firm representative = 2.3 years → sample is concerned with modified and straight rebuys
- Average work experience of the supplier (customer) representatives is 13.7 (12.5) years

The sample consists of ten central B2B industries

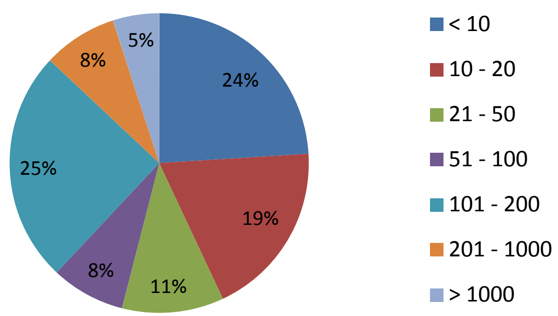


N = 150

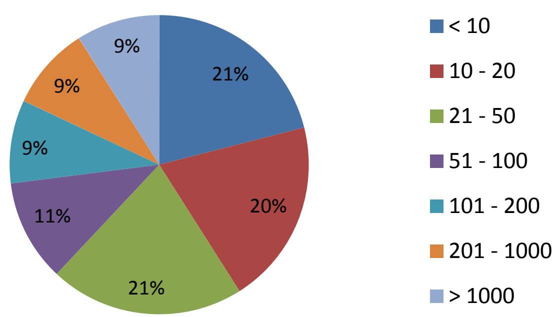
The sample consist of companies and business units of all sizes

Supplier

Number of Employees

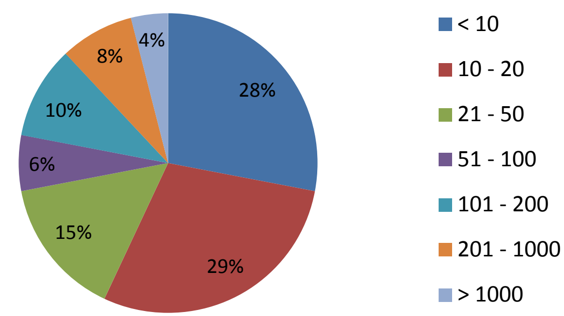


Sales (Mio. €)

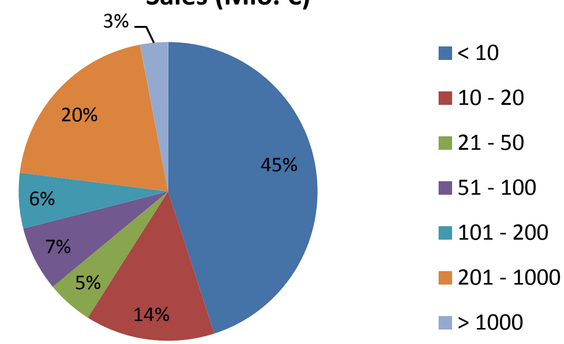


Customer

Number of Employees



Sales (Mio. €)



Price fairness in business-to-business markets can be viewed as a three-dimensional concept

Price fairness is more complex in business-to-business than in business-to-consumer settings → use of price negotiations to determine prices + greater cognitive and analytical evaluation of price information + greater importance of personal interaction in the transaction process

Distributive Price Fairness

= the customer firm's perception of the supplier's prices as fair and just

→ **outcome-orientation**

Operationalization

- The price of the good/ service is adequate.
- The price of the good/ service is fair.
- The price of the good/ service is justified.
- The price of the good/ service appropriately reflects the value proposition of the supplier.
- The ratio of the price of the good/ service to the costs associated with manufacturing and selling the good/ service is legitimate.
- In view of the supplier's contribution to the business relationship the price of the good/ service is well deserved.
- With respect to our contribution to the business relationship the price of the good/ service is adequate.

Procedural Price Fairness

= the customer firm's perception of the supplier's procedures to set prices in the business relationship as fair and just

→ **process-orientation**

Operationalization

- The supplier's price-setting processes are altogether fair.
- The supplier's price-setting processes are righteous.
- The supplier's price-setting processes are objective.
- The supplier's price-setting processes are clearly defined.
- The supplier's price-setting processes are temporally stable.

Interactional Price Fairness

= the customer firm's perception of the treatment by the supplier in price-related personal interactions as fair and just

→ **interaction-orientation**

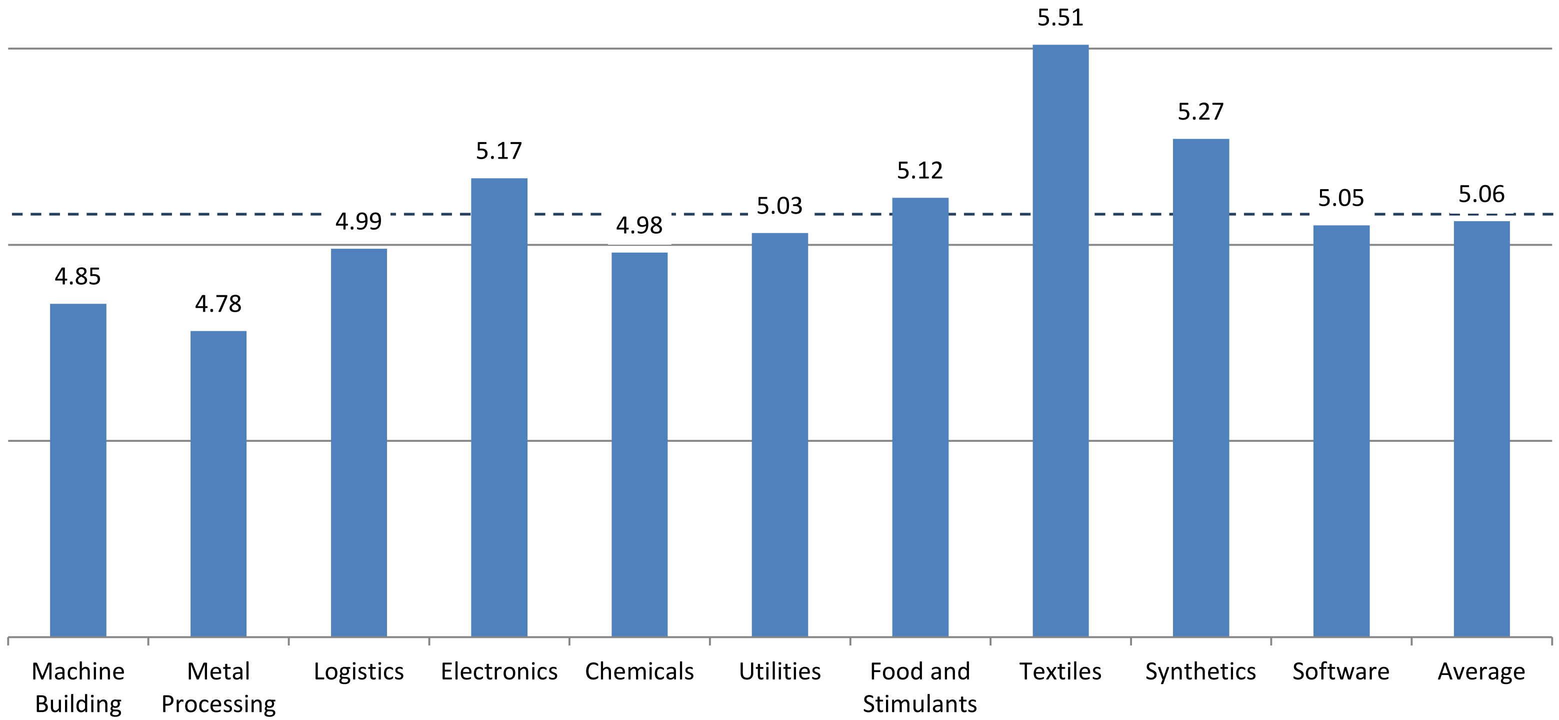
Operationalization

In the context of price-related personal interactions …

- … the behavior of the supplier's representative is altogether fair.
- … the supplier's representative is honest to me.
- … the supplier's representative treats me with respect.
- … the supplier's representative is friendly to me.
- … the supplier's representative is sensitive to my personal needs.
- … the supplier's representative explains decisions carefully.
- … the supplier's representative communicates feedback and details in a timely manner.

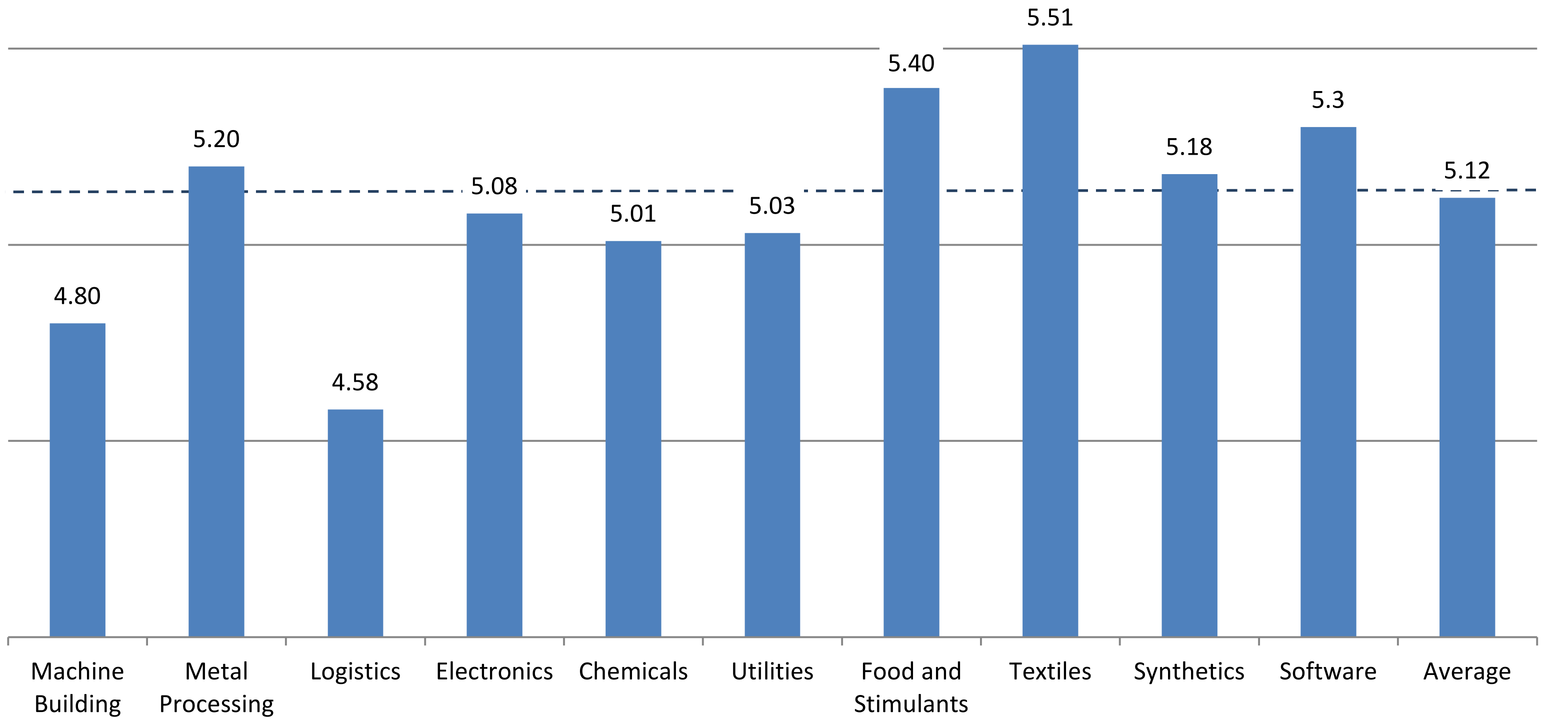
Prices in the textiles, synthetics, and electronics industries are perceived as fairer by customers than prices in other industries

Perception of distributive price fairness by the customer (scale 1-7).



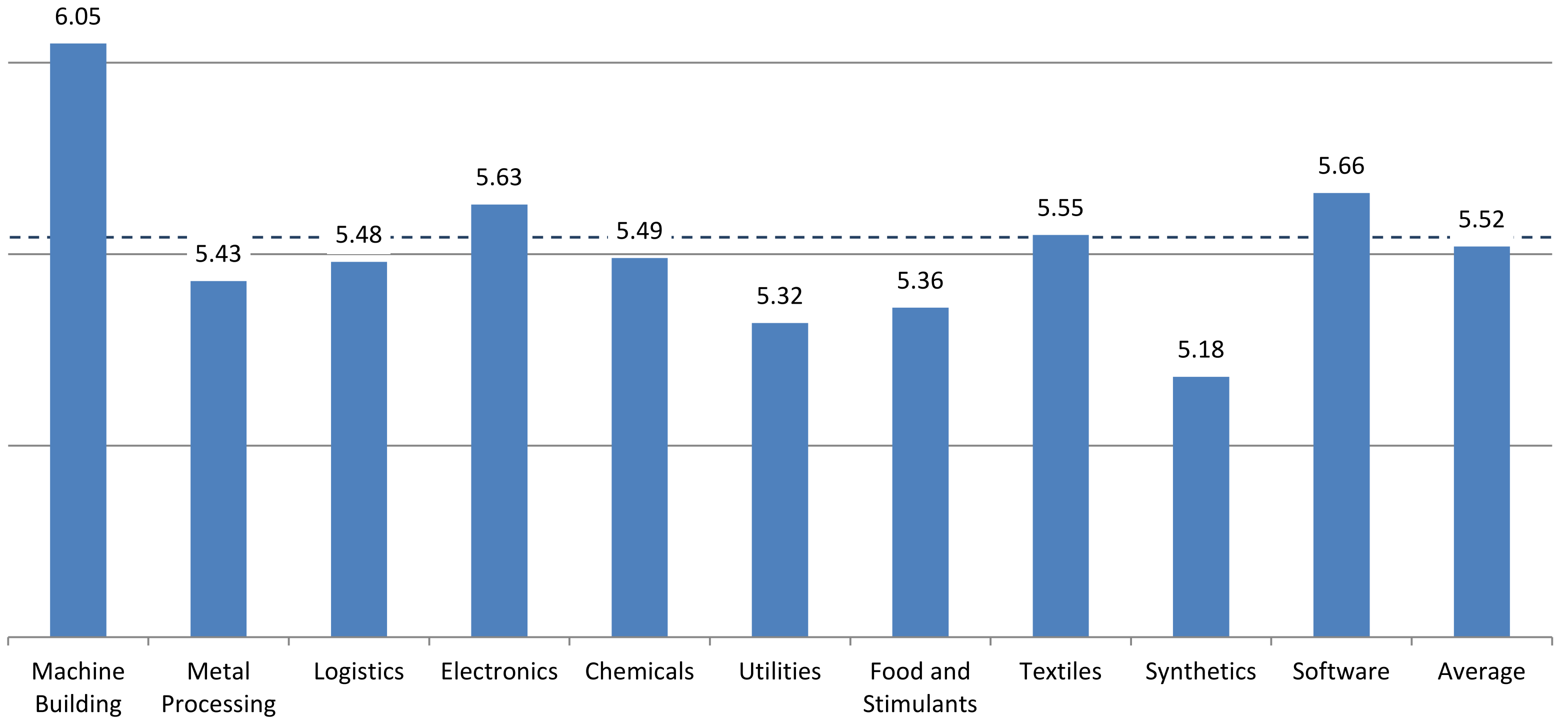
Price-setting processes from suppliers in the textiles, food and stimulants as well as software industries are perceived as the most fair

Perception of procedural price fairness by the customer (scale 1-7).

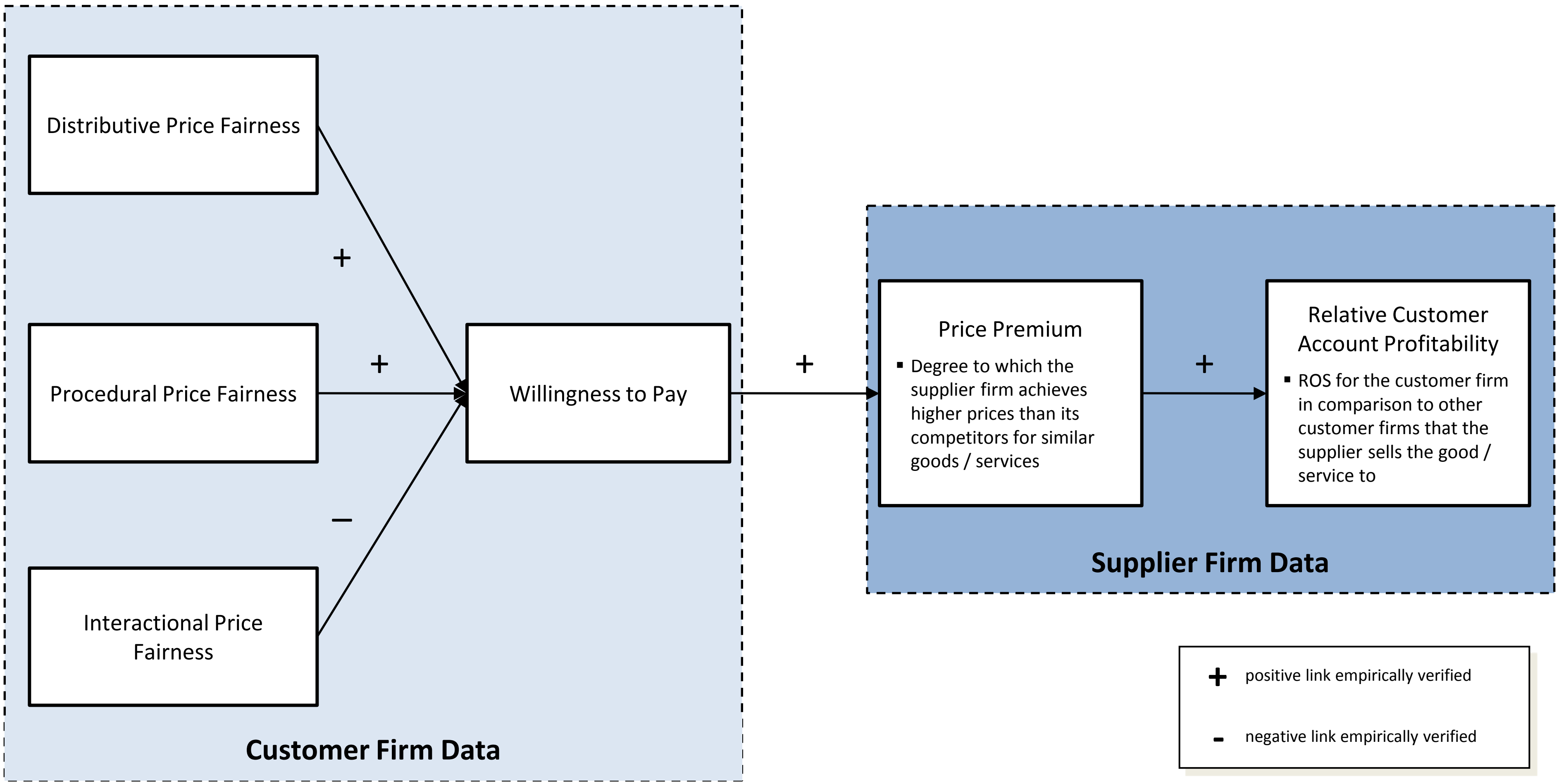


Especially in the machine building industry customers perceive the price-related interaction behavior (e.g. in price negotiations) of suppliers as fair

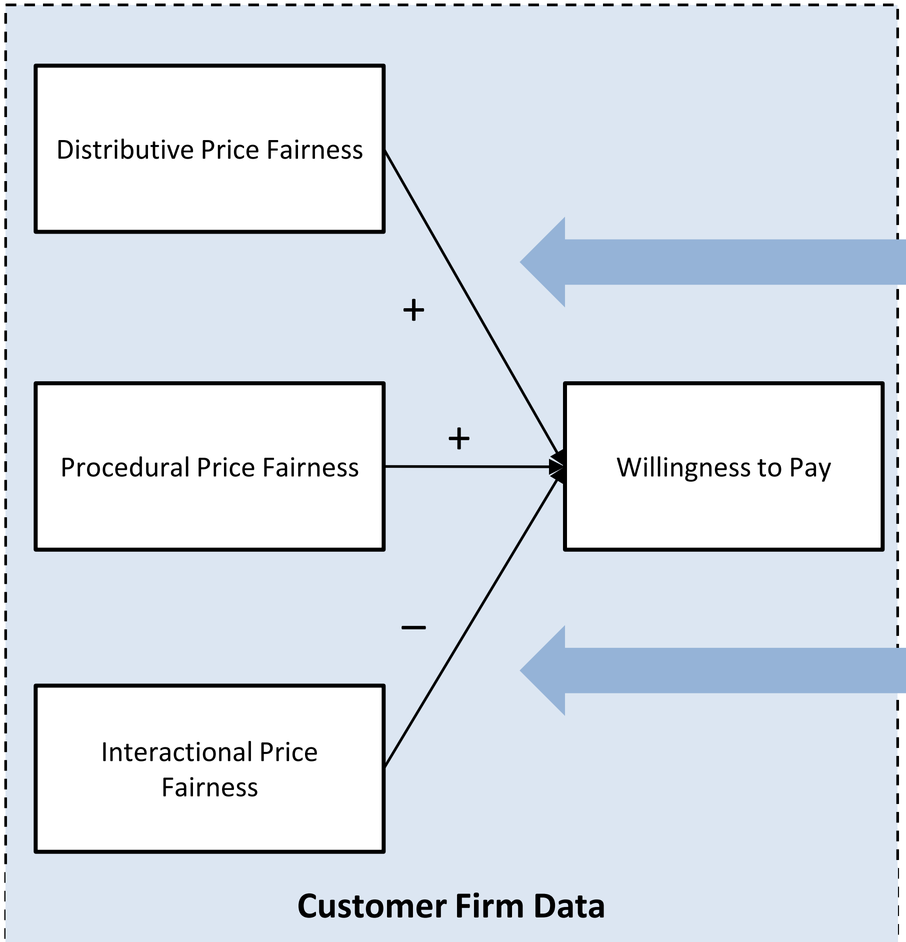
Perception of interactional price fairness by the customer (scale 1-7).



Distributive and procedural justice have positive, interactional justice negative profit implications for suppliers



The impact of the price fairness dimensions on willingness to pay is accentuated and dampened, respectively, by two factors



Delegation of Pricing Authority to the Sales Force

The higher the degree of delegation of pricing authority to the sales force, …

- The weaker the positive impact of distributive price fairness.
- The stronger the positive impact of procedural price fairness.
- The stronger the negative impact of interactional price fairness.

Competitive Intensity in Customer Firm's Selling Market

The higher the competitive intensity in customer firm's selling market, …

- The stronger the positive impact of distributive price fairness.
- The weaker the positive impact of procedural price fairness.
- The weaker the negative impact of interactional price fairness.

The study results lead to several managerial implications

1. Suppliers in business-to-business markets should be aware of the fact that price fairness perceptions of their customers influence their profitability.
2. Suppliers should take into account that customers perceive price fairness along the dimensions price, price-setting processes as well as price interactions and that those perceptions are not uniform.
3. Fair prices (distributive price fairness) generally have a positive impact on the profitability of suppliers in buyer-seller relationships.
4. Fair price-setting processes (procedural price fairness) generally have a positive impact on the profitability of suppliers in buyer-seller relationships.
5. Fair behavior in personal price-related interactions (interactional price fairness) generally has a negative impact on the profitability of suppliers in buyer-seller relationships.
6. If suppliers strongly delegate pricing authority to the sales force, sales force personnel should focus on conveying procedural price fairness to the customer; in that case fair behavior in price-related interactions should be exhibited with great caution.
7. If a customer firm acts in a very competitive environment, suppliers should mainly focus on conveying distributive price fairness.

Contact and Further Information: Institute for Market-Oriented Management at the University of Mannheim

The **Institute for Market-Oriented Management** (**IMU**) at the University of Mannheim (Germany) considers itself to be a forum for dialogue between scientific theory and practice. The high scientific and academic standard is guaranteed by the close networking of the IMU with the three Chairs of Marketing at the University of Mannheim, which are highly renowned on a national and international level. The Academic Directors of the IMU are Prof. Dr. Hans H. Bauer, Prof. Dr. Dr. h.c. mult. Christian Homburg and Prof. Dr. Sabine Kuester.

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