



# Internal and external price search in industrial buying: The moderating role of customer satisfaction<sup>☆</sup>



Christian Homburg<sup>a,b,\*</sup>, Jan Allmann<sup>a,1</sup>, Martin Klarmann<sup>c,2</sup>

<sup>a</sup> University of Mannheim, Institute for Market-Oriented Management, 68131 Mannheim, Germany

<sup>b</sup> Department of Management and Marketing, University of Melbourne, Australia

<sup>c</sup> Karlsruhe Institute of Technology, 76131 Karlsruhe, Germany

## ARTICLE INFO

### Article history:

Received 1 April 2013

Received in revised form 1 August 2013

Accepted 1 October 2013

Available online 1 November 2013

### Keywords:

Price search

Price importance

Customer satisfaction

Buyer–seller-relationships

Business-to-business

## ABSTRACT

Despite price's great relevance in organizational buying decisions, prior research primarily studies price search in business-to-consumer environments. This research conceptualizes both internal and external price search in a business-to-business setting and focuses on how price importance affects these two types as well as how customer satisfaction moderates the relationships. Results show that purchasing managers' satisfaction associates positively with the effect of price importance on internal price search. Also, their satisfaction negatively associates with the effect of price importance on external price search. Price search reduces the price premium paid by customers (especially external price search).

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## 1. Introduction

Recently, most firms observe greater emphasis on price in buyer decision-making (Williamson & Zeng, 2009). Organizational buyers consistently rank price as a central criterion for making buying decisions (Bendixen, Bukasa, & Abratt, 2004; Wuyts, Verhoef, & Prins, 2009; Zablah, Brown, & Donthu, 2010). As the *Wall Street Journal* notes, the “downward pressure on prices is a global phenomenon” (Reddy & Zhao, 2010, p. 2). To respond to this trend, B2B managers must understand how price importance links to the purchase price.

Price importance marks the price's relative importance in the customer's buying decision process. Thus, price importance captures the customer's focus on paying a low price (Kujala & Johnson, 1993). This study focuses on understanding how price importance links to customer's price search.

Although the literature identifies price search concerning business-to-consumer (B2C) transactions (e.g., Srivastava & Lurie, 2001), scant research examines price search in business-to-business (B2B) settings. This omission is noteworthy because B2C research finds that price search may lead to lower prices paid and lower total purchasing costs (Viswanathan, Kuruzovich, Gosain, & Agarwal, 2007). While price search economically benefits the searching party (Fox & Hoch, 2005), the activity negatively affects vendor's performance (Gauri, Sudhir, & Talukdar, 2008).

Results from B2C settings do not apply to B2B contexts because the latter's attributes differ. For example, preeminent use of price negotiations (Lichtenthal & Mummalaneni, 2009) and the greater cognitive and analytical evaluation of price information (Forman & Lancioni, 2002) suggest that price search activities do not compare well across the two contexts. Industrial price searches need a different conceptualization.

Reviewing the extant literature informs this study's B2B-specific concepts for internal price search (negotiating with current suppliers) and external price search (tracking and comparing prices of alternative suppliers). To what extent does the price search mechanism choice depend on price's importance in a specific situation? Customer satisfaction serves to build long-term relationships and remains the primary objective despite the situational nature of B2B markets (Keiningham, Perkins-Munn, & Evans, 2003). The degree of customer satisfaction likely affects the choice of a price search mechanism; increasing satisfaction creates a stronger association between price importance and internal price search. Additionally, how does the price search affect the price premium customers pay?

<sup>☆</sup> The authors thank Florian Kaiser for his substantial contributions to the development of the questionnaire and his efforts in collecting the data for this research. We also thank Drew Martin and the JBR review team for their numerous helpful suggestions.

\* Corresponding author at: University of Mannheim, Institute for Market-Oriented Management, 68131 Mannheim, Germany. Tel.: +49 621 181 1555; fax: +49 621 181 1556.

E-mail addresses: [homburg@bwl.uni-mannheim.de](mailto:homburg@bwl.uni-mannheim.de) (C. Homburg),

[jan.allmann@googlemail.com](mailto:jan.allmann@googlemail.com) (J. Allmann), [martin.klarmann@kit.edu](mailto:martin.klarmann@kit.edu) (M. Klarmann).

<sup>1</sup> Tel.: +49 621 181 1555; fax: +49 621 181 1556.

<sup>2</sup> Tel.: +49 721 608 43430; fax: +49 721 608 47765.

Survey data from nearly 200 purchasing managers test propositions. As these managers may perceive the price premium differently than their suppliers, data were collected from 51 suppliers to validate findings regarding price premium.

This study contributes to the literature in several ways. First, the study conceptualizes and examines internal and external price searches in a B2B setting. Second, the results clarify price importance's role as a driver of price search. Third, this study identifies customer satisfaction as a contextual variable that influences the link between price importance and price search. Fourth, results show how price search in B2B markets affects the price premium paid by customers.

## 2. Conceptual background

Fig. 1 shows the price importance effects via external and internal price search to price premium. Customer satisfaction serves as moderator of the link between price importance and price search and as antecedent of price premium.

*Price importance* is defined as the price's relative weight as a decision making factor in the buying decision process and captures the customer's focus on paying a low purchasing price (Kujala & Johnson, 1993). While industrial buyers consider various aspects in their buying decision (Johnston & Lewin, 1996), price importance likely drives the price search.

A key point is relating price importance to price consciousness and price sensitivity. Price consciousness refers to a variety of price-related cognitions (Zeithaml, 1984). Lichtenstein, Ridgway, and Netemeyer (1993, p. 235) define price consciousness as "the degree to which the consumer focuses exclusively on paying low prices". This definition implies a concern for price as a key criterion in decision-making and internal limits on willingness to pay (Zeithaml, 1984). Thus, price consciousness serves as the B2C analogy of price importance. Price sensitivity describes how customers react to price and changes in price levels. Hence, sensitivity is more a price search outcome (Diehl, Kornish, & Lynch, 2003).

At the model's center lies *price search*. An important B2C conceptualization distinguishes between-store price search (comparing prices across stores) from in-store price search (comparing prices within one store) (Urbany, Dickson, & Kalapurakal, 1996). A related conceptualization differentiates between spatial and temporal price search (Gauri et al., 2008). While studies on consumer price search are numerous (e.g., Srivastava & Lurie, 2001), B2B research largely neglects this concept. This study introduces B2B-specific concepts of internal and external price search. Based on the logic on in-store price search, the notion of *internal price search* refers to efforts in

negotiating prices with *current* suppliers. *External price search* derives from between-store price search. The external search refers to comparing prices of *alternative* suppliers.

In the model, *customer satisfaction* moderates the relationship between price importance and price search type. The customer's satisfaction comes from a cumulative evaluation of the purchase and consumption of products and services from a supplier (Johnson, Anderson, & Fornell, 1995). Finally, the *price premium paid by the customer* denotes prices "above what is warranted by a product's or service's true quality" (Mishra, Heide, & Cort, 1998, p. 279).

## 3. Hypothesis development

Recent studies consistently report that price is among the most important criteria in organizational purchasing (Bendixen et al., 2004; Wuyts et al., 2009; Zablah et al., 2010). Difficult economic conditions increase price's importance (Williamson & Zeng, 2009) as well as growing production outsourcing to low-cost countries (Grossman & Helpman, 2005), and rising competitive intensity (Leonidou, 2004).

If price importance is high, knowing the range of prices in the market is invaluable. Understanding the price range creates opportunities for making deals at the lowest price and offers powerful leverage in negotiations. An increasing emphasis on price likely results in more intensive internal and external price search activities. For example, Kujala and Johnson (1993, p. 252) recommend that customers "who value price information from a cost-benefit standpoint should engage in an overt [...] search process".

Price search is costly. For internal price search, costs arise in terms of the time and effort associated with preparing and implementing price negotiations (Wilken, Cornelißen, Backhaus, & Schmitz, 2010). Conducting an external price search requires time and effort to identify, evaluate, and contact alternative suppliers (Hunter, Bunn, & Perreault, 2006). Thus, buyers need to weigh price knowledge's value against the price search's cost. The greater the focus on buying at a low price, the more likely a customer will accept such costs.

**H1a.** Price importance positively impacts the internal price search.

**H1b.** Price importance positively impacts the external price search.

Internal price search focuses on negotiating with current suppliers. Price negotiations are a key characteristic of B2B compared to B2C buying behavior (Lichtenthal & Mummalaneni, 2009). The more a customer uses negotiations to pressure the supplier to reduce prices, the greater the likelihood of succeeding, especially if the supplier has established a price premium (Henke, Parameswaran, & Pisharodi, 2008).

## Conceptual framework and constructs

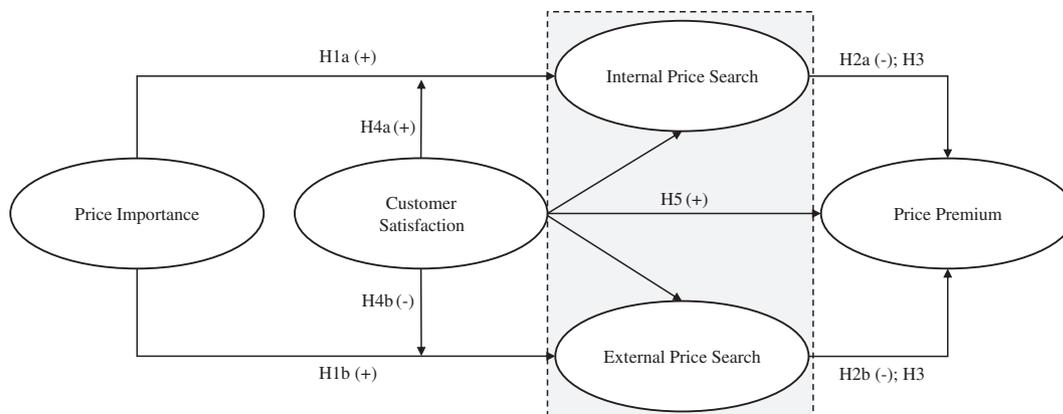


Fig. 1. Conceptual framework and constructs.

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