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Editorial — Behavioral and psychological aspects of b2b pricing

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ABSTRACT

In this paper we define core research questions falling within the domain of behavioral and psychological aspects of B2B pricing. We then present the papers accepted for this special issue. Central research questions are, in our view, all those instances where decisions about price violate basic principles of rational choice. Decisions about price involve two main actors. First is the customer. We are interested in how customers' purchase decisions in B2B exhibit behavioral patterns that are inconsistent with rational choice models. Second is the manager. Managers set prices and in this process are equally susceptible to violating fundamental principles of rational choice. For this special issue we have been able to accept six papers. We welcome the debate that these papers are likely to start.

Research on behavioral and psychological aspects of decision making has witnessed a surge in interest. In a recent special issue of the *Strategic Management Journal* (Powell, Lovallo, & Fox, 2011), Levinthal (2011, p. 1517) asks the question "A behavioral approach to strategy—what's the alternative?" Recent developments in finance, organization theory, and marketing have moved behavioral aspects of decision making solidly within mainstream research. The majority of research in this area is conducted in consumer markets—in many instances with student samples—leaving implications for industrial marketing largely unexplored. With this special issue, *Behavioral and Psychological Aspects of B2B Pricing*, we aim to advance our understanding of this emergent field of research and practice.

In total we received over 30 submissions to this special issue. We have been able to accept six papers following the customary *Industrial Marketing Management* review process. In the opening paper "Violations of rational choice principles in pricing decisions" *Andreas Hinterhuber* presents a comprehensive framework on violations of rational choice principles in decisions about prices by customers — i.e. purchase decisions — and by managers — i.e. price setting decisions. The underlying framework of this paper is intended to improve the quality of decisions for both customers and managers in B2B. The next five papers then focus specifically on either the customer or the manager and examine specific behavioral biases and anomalies of this specific actor.

Papers examining biases related to customers and purchase decisions: *Kent B. Monroe*, *Veli-Matti Rikala*, and *Outi Somervuori*, in "Examining the Application of Behavioral Price Research in Business-to-Business Markets," present five behavioral pricing concepts and discuss implications for industrial marketing theory and practice: the concept of reference prices and the price-perceived value model are widely applied in industrial pricing, the price-quality effect receives mixed support, whereas for price threshold and acceptable price ranges further research is needed.

Papers examining biases related to managers and price setting: *Arch Woodside*, in "The General Theory of Behavioral Pricing: Applying Complexity Theory to Explicate Heterogeneity and Achieve High-Predictive Validity," blends cognitive science, complexity theory, economics, marketing, psychology, and pricing practices to develop a context-rich, path-dependent theory of behavioral pricing in industrial markets. The use of multiple information sources, including ethnographic observations for example, to build models with high predictive validity is a very fruitful avenue which deserves more widespread use for pricing research in industrial markets. *Pekka Töytäri*, *Risto Rajala* and *Thomas Brashear*, in "Organizational and Institutional Barriers to Value-Based Pricing in Industrial Relationships," present the results of qualitative research on the implementation of value-based pricing in industrial companies. The authors identify three main behavioral barriers to implementation: (1) understanding and influencing the customer's desired value, (2) quantifying and communicating value in buyer–seller relationships, and (3) challenges in value capture. The authors propose a novel conceptualization of value in business markets and find that successful implementation of value-based pricing requires a broad view of customer value that includes not only operational and

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strategic aspects but also social and symbolic aspects. *Stephan Liozu* in "Pricing Superheroes: How a Confident Sales Team Can Influence Firm Performance," examines the role of sales force confidence in pricing on firm performance. In a quantitative study with sales and account managers, the author identifies several key antecedents of sales force confidence in pricing. In addition, the author suggests that sales force pricing confidence and pricing capabilities directly and positively influence firm performance. This study highlights the critical role of the pricing confidence construct in the field of business-to-business pricing. *Gopalkrishnan Iye*, *Sarah Xiao*, *Arun Sharma*, and *Michael Nicholson*, in "Behavioral Issues in Price Setting in Business-to-Business Marketing: A Framework for Analysis," present an overview of managerial biases in industrial price setting. The organizational context, the environmental context, and individual managerial factors influence price setting. More specifically, these three factors influence how pricing objectives are set, how environmental analysis is performed, which specific pricing methodology managers select and, finally, the initial price point chosen. This framework summarizes current research in a novel way and provides a rich opportunity for further research on managerial biases in industrial price setting.

As the authors across these papers argue, much of what we know about behavioral and psychological aspects of pricing stems from research with individual customers, mostly students. We must note that consumer behavior researchers themselves have since long warned against the use of student samples: "This is not to say that findings based on students are always wrong. It is only to say that findings based on students are always suspect" (Wells, 1993, p. 492). Consumer researchers note that they "should not build universal theories on student-based results" (Wells, 1993, p. 494). In a recent study, researchers compare the results of a simple survey across dozens of similar student populations and find disconcerting differences in terms of scale means, scale variances and structural relationships (Peterson & Merunka, 2014). The researchers conclude: "statistical inferences drawn from convenience samples of business students do not even generalize to a business student population" (Peterson & Merunka, 2014, p. 1040).

The papers in this special issue indeed confirm the substantial differences in survey results between studies conducted with consumers and studies conducted with industrial purchasing managers and industrial consumers. We cite two salient examples: the price-quality effect, postulating that customers use price to infer product quality. This effect is robust in consumer markets, but not in industrial markets: four different studies have been conducted in B2B, with two reporting a strong effect and two finding no effect (Monroe, Rikala, & Somervuori, 2015). Since a perfectly rational customer would probably evaluate price and quality independently, these studies would suggest that violations of rational decision making are more pronounced in consumer markets than in industrial markets. A second example is the flat fee bias, postulating that customers prefer higher, but predictable fees to lower, fluctuating fees (Lambrecht & Skiera, 2006): customers end up paying more, but being happy about it. This effect is, as recent research reminds us, much more pronounced in industrial markets than in consumer markets (Stingel, 2008): the studies in this area thus suggest, by contrast, that violations of rational decision making are more pronounced in industrial markets than in consumer markets. We could go on — but we note: violations of basic principles of rational choice are not necessarily more widespread in consumer markets than in industrial markets. The papers in this special issue illuminate these rational choice anomalies in industrial markets from different viewpoints. More importantly, all papers in this special issue suggest that our understanding of decisions about prices in industrial markets is significantly enhanced if we consider the psychological and behavioral foundations on which human action rests. We welcome the debate which these and other papers on this emerging stream of research are likely to spark.

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