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Exploring the role of relationship pricing in industrial export settings: Empirical evidence from the UK

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A B S T R A C T

This paper sets out to shed initial empirical light on the role of relationship pricing in an industrial export context, by a) investigating the extent to which selected contextual variables shape the adoption of relationship pricing, and b) examining manifestations of relationship pricing in the process that industrial exporters use for levying their prices. Analyzing data from a stratified random sample of 243 UK exporters of industrial products, the results demonstrate that the adoption of relationship pricing is a) facilitated by the degree of an exporter's market orientation, export experience, and the level of formality in export price setting and b) hindered by firm age and export intensity. It is also shown that industrial exporting firms adopting relationship pricing tend to follow a more market-based export price decision-making process, as this is manifested in market-based export pricing information, objectives and policies. The practical implications of the findings are discussed and useful future research directions are highlighted.
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1. Introduction

Relationship marketing is increasingly seen as a desirable marketing strategy due to its profit potential and appeal to customers. For instance, it is suggested that "an effective customer relationship marketing system is a way for the organization to develop a customer focus that has impact, that allows the organization to hear the customer's voice… to view the purchasing process from the customer's point of view, to empathize with the customer's feelings, and to treat the customer's information with great care" (Zikmund, McLeod, & Faye, 2003: p. 6) Similarly, Kumar and Reinartz (2006: p. 17) note that through relationship marketing a firm may be able to "identify profitable customers and develop specific strategies for interacting with each customer" with an outmost goal to "optimize the current and future value of the customers for the company". In the same context, Berry and Yadav (1996) argue that firms can benefit in financial terms when doing business with established customers for a long period of time and that customers can reduce the risk associated with evaluating and purchasing a product.

A wealth of empirical research has been conducted in the field of relationship marketing and customer relationship management in general (e.g., Chiu, Hsieh, Li, & Lee, 2005; Leek, Turnbull, & Naudé, 2004; Wengler, Ehret, & Saab, 2006). Much of this research has investigated extensively issues such as, among others, the impact of technology (e.g., CRM systems, data mining techniques, Internet) on building long-term relationships with customers (Javalgi, Radulovich, Pendleton, & Scherer, 2005; Kumar & Reinartz, 2006), the relationship between CRM and customer satisfaction (Mithas, Krishnan, & Fornell, 2005), and the application of relationship marketing to different industries, such as services and retailing (Leek et al., 2004; Srinivasan & Moorman, 2005). Moreover, much of this research is positioned within the domain of business-to-business (B2B) marketing (e.g., Buehrer, Senecal, & Pullins, 2005; Liu & Comer, 2007; Simon, 2005). There is, however, an issue that is both conceptually and empirically neglected: the role of pricing and more specifically the concept of relationship pricing (henceforth RP).

To address this gap, this paper sets out to investigate the role of RP in an industrial export context. More specifically, this paper intends to a) measure the extent to which selected contextual variables influence (i.e., facilitate or hinder) the adoption of RP, and b) investigate manifestations of RP in the process that manufacturers of industrial products use for levying their export prices. The rationale for focusing on an industrial export context was two-fold. First, we focused on an industrial context because relationship marketing may flourish more easily in B2B rather than business-to-consumer (B2C) settings due to the inertia characterizing buyer–supplier relationships in B2B settings (Fill & Fill, 2005). More specifically, "buyer–seller interdependence is a crucial characteristic of industrial marketing, i.e., that industrial firms establish buyer–seller relationships that are often close, complex and frequently long-term, whereas models of long-term relationships between manufacturers and channel members have been examined thoroughly in the B2B literature" (Low, 1996: p. 25). Perrien and Ricard

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(1995: p. 24) suggest that "in the field of B2B marketing developing a relational approach to marketing exchanges represents a feasible strategy". Typical textbooks on B2B marketing also argue that one of the main differences between business and consumer markets is the closer long-term relationships established with key customers, which, in many cases, impose high switching costs (e.g., Webster, 1991). Drawing on the above thoughts, we can expect that the concept of RP applies more to a B2B than to a B2C setting. Second, we focused on an export (rather than domestic) context, because common challenges and uncertainties facing exporting firms (e.g., cross-cultural differences, unique customer needs) (Onkvisit & Shaw, 2004) may be easier to tackle through the establishment of close and long-term relationships with foreign customers.

The remainder of the paper is organized as follows. We begin by framing the concept of RP and we proceed by developing the research propositions. Next, we present the research methodology and the operationalization of variables. Subsequently, we present the results and, finally, we conclude with the implications and limitations of the findings as well as with directions for future enquiry.

2. Conceptual framework and research propositions

2.1. The concept of RP

An investigation into the literature on industrial pricing and relationship marketing reveals a lack of empirically-derived operationalizations for the concept of RP. There exist, however, a few approaches that, although conceptual, are useful for the identification of the pillars of RP.

Berry and Yadav (1996) referred to the concept of RP and described it as a pricing philosophy encouraging the development of profitable, long-term customer relationships. A careful analysis of mutual benefits is essential to determine the factors that make the relationship work. Berry and Yadav also suggested that it is in the firm's best interest to avoid simplified pricing formulae that merely result in price reductions or mass discounts and endeavor to indulge in long-term contracts with customers. Such contracts will result in some kind of mutual agreements concerning what is the best price option for both parties and will lead to a reduction of the significance that the parties attach to pricing, thus dramatically shifting attention to non-price elements, like accuracy in delivery and after-sales support. Expect for the above explicit conceptual mention to the concept of RP, the literature contains some implicit references too. Beyond their usefulness to further framing the concept's domain, such references also point at its necessity in buyer–supplier relationships. For example, in an empirical study of the pricing practices of exporting firms from Austria, Norway and the US, Solberg, Stöttinger and Yaprak (2006) criticized management for using mainly rigid, cost-plus approaches, which they described as simplistic and unsophisticated. Similarly, Cressman (1999) criticized manufacturers' of industrial products pricing practices for being heavily dominated by internal, cost-based approaches and warned that the dominance of such practices should ring alarm bells for marketing academia and practice, because they strip the pricing process from a necessary component of the marketing concept: the thorough understanding of customers' value drivers. Moreover, from a relationship marketing angle, Gordon (2000: p. 512) suggested that just as products and services in industrial settings are obtained in a process of collaboration, so too will prices need to be determined, commenting in particular that "relationship marketing invites customers into the pricing process […] giving [them] an opportunity to make any trade-offs and to further develop trust in the relationship".

Drawing on the above insights from the literature on industrial pricing and relationship marketing, we propose that the willingness of suppliers to a) avoid confrontation with their customers when setting prices, and b) ensure cost transparency are the two pillars of RP. We position RP within Morgan's (2000) economic content of relationship marketing, whereby relationships providing participants with superior economic benefits facilitate effective cooperation and, therefore, relationship preservation and success. Within the same context, relationship marketing is seen as networks and interactions with the outmost goal being to add value to both parties through the establishment of mutually beneficial long-term relationships (Doole, Lancaster, & Lowe, 2005). Because RP is (or should be) part of a broader relationship marketing culture, we expect that firms which manage to avoid confrontation with their customers when setting prices are bound to engage in a collaborative pricing process where both customers' needs and firm's objectives are taken into account. Firm's objectives may serve as the floor for the final price, while customers' needs may serve as the ceiling (Lovelock, 1996). Similarly, cost transparency is expected to create customer trust, a pre-requisite for the development of a long-lasting relationship (Gummesson, 1999). More specifically, through an understanding of the true cost of a product, the customer gets less likely to complain to a proposed price and more willing to regard it as a fair one (Diamantopoulos, 1991). Therefore, it could be argued that both confrontation avoidance and cost transparency involve other implicit aspects and dimensions of relationship marketing in general and RP in particular (e.g., customers' need satisfaction, establishment of long-term relationships).

Based on the foregoing discussion, we define RP in industrial export settings as a supplier's interpretation of the export pricing process as a tool to develop and sustain long-term, mutually profitable and beneficial relationships with foreign customers, through the avoidance of confrontation (e.g., a mutual route to price negotiation and an understanding of customers' value drivers) and the establishment of cost transparency.

Fig. 1 presents the conceptual framework of our research, which consists of two parts. In the upper part, RP is treated as a dependent variable and is related to a set of contextual variables that may facilitate or hinder the adoption of RP in an industrial export context. In the lower part, RP is treated as an independent variable in order to investigate its role in the actual export pricing process. The latter process is of paramount importance to the formulation of an exporter's pricing strategy (Shipley & Jobber, 2001) and consists of a) the pieces of pricing information that a firm should collect, b) the pursued pricing objectives, c) the adopted pricing policies, and d) the adopted pricing methods (e.g., Monroe, 2003; Narayandas, Quelch, & Swartz, 2000; Shipley & Jobber, 2001; Solberg et al., 2006).

In the ensuing discussion we explain the relationships depicted in the conceptual framework. However, owing to the lack of previous empirical research on RP (either in domestic or export settings), we summarize the expected relationships in the form of research propositions, rather than formal hypotheses.

2.2. Variables affecting the adoption of RP

In regard to the factors that may affect the adoption of RP, we wish to clarify that we do not claim exhaustiveness as our framework does not include all different contextual variables that may play a role. In fact we have not attempted to be exhaustive because this study represents, to the best of our knowledge, the first attempt to frame the role of the new concept of RP. We tried, instead, to take into account common variables that have proved to shape firms' export strategy in general or export pricing strategy in particular, like firm size, export experience, and export intensity (e.g., Cavusgil, Chan, & Zhang, 2003; Katsikeas, 1994; Katsikeas & Morgan, 1994; Myers & Harvey, 2001; Theodosiou & Katsikeas, 2001) and ones that, based on sufficient inference, appear to be prominent predictors of RP, like a firm's degree of market orientation and the formality of the export pricing process.

2.2.1. Firm size

The relationship between firm size and the adoption of RP has not been examined before. Although smaller firms may lack the organized

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