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"Let's make a deal:" Price outcomes and the interaction of customer persuasion knowledge and salesperson negotiation strategies

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ABSTRACT

In response to increased consumer empowerment and frugality, many business-to-consumer (B2C) firms now negotiate "deals" with customers. Understanding how buyer and seller inputs affect negotiation outcomes is important because successful completion, or a closed sale, results in perceived value (based on the negotiated price) for both the customer and the seller. We suggest negotiation is influenced by the persuasion knowledge of the customer and the negotiation strategies used by the salesperson to manage conflicts that arise during the process. Using unique dyadic data from the automotive industry that combines multisource (salesperson and customer) survey data with objective purchase price information, we find that price outcomes and customer satisfaction depend on the different interactions of customer persuasion knowledge and salesperson negotiation strategies. The results suggest that perceived value may be generated for both the selling firm and the customer based on these unique inputs.

Negotiation in business-to-consumer (B2C) settings is becoming increasingly prevalent as consumers are armed with more information and greater price sensitivity than ever before (Microsoft, 2015). Mirroring the increasing complexities in business-to-business (B2B) contexts (Plouffe, Bolander, Cote, & Hochstein, 2016), consumers now use the Internet, mobile applications, and a vast online social network to instantly search and compare products and pricing information (Grewal, Iyer, & Levy, 2004). Prahalad and Ramaswamy (2004) characterize these consumers as being informed, connected, and capable of extracting value at the point of exchange through negotiation. In addition to the customer's ability to negotiate, the advent of phenomena like extreme couponing and showrooming seems to have made frugality and price-comparison trendy (Curnalia, 2014; Farrell, 2010). In response, even B2C firms that are not historically known for negotiating with customers are now allowing in store or point-of-sale negotiations (e.g., Home Depot, Nordstrom; see Stout, 2013).

In B2C settings, retail negotiation was common practice prior to the 1850s, when retailers began setting fixed prices (Richtel, 2008). Once fixed pricing became the norm, negotiating for a deal was considered embarrassing and demeaning, suggesting that the customer could not afford to pay full price. Today, however, information availability has transferred power to consumers and the use of negotiation is regaining prominence. Because of the power shift, sellers have become increasingly open to customer price concession demands in an effort to retain the customer's business and build loyalty. Many firms realize that negotiation is required, as conceding to an offer may be the firm's only opportunity for a sale or favorable customer response (Galinsky & Mussweiler, 2001). Taken together, the trends in consumer cost-saving behavior coupled with more flexible corporate pricing strategies indicate that B2C negotiation is a marketplace phenomenon in need of scholarly research.

Some research suggests that negotiation can lead to unfavorable outcomes for a firm because negotiated agreements are delayed and less efficient (e.g., Srivastava & Chakravarti, 2009). Arguments against B2C negotiations advise that the consumer might not ever be satisfied and the prolonged exchange depletes valuable firm resources. However, negotiation can promote favorable outcomes for the firm such as a co-production relationship between the firm and customer resulting in higher levels of customer cooperation and satisfaction (e.g., Schurr & Ozanne, 1985). In some consumer exchanges, where negotiation may be required to co-produce a solution that produces value for both sides, the appropriateness of negotiation should be looked at from a value (where both buyer and seller benefit) perspective (Weitz & Bradford, 1999).

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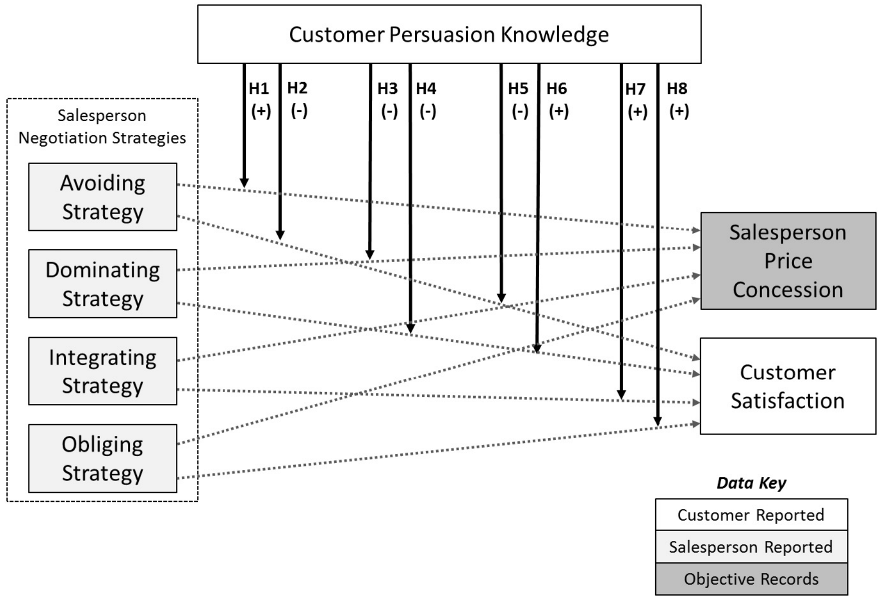

Fig. 1. Conceptual model.

Recent conceptual literature has proposed that mutual value should be the desired end goal of sales exchange (Dixon & Tanner, 2012). To accomplish this goal, salespeople are tasked with "brokering," or negotiating a deal that allows an exchange to occur. Salespeople do this by communicating value propositions designed to be acceptable to the firm and the customer. In essence, perceived value (for either the buyer or the seller) only occurs when a negotiation concludes and the deal is "closed." The close of the negotiation indicates sufficient expectation that value for both parties has been communicated to complete the sale, which allows value expectations to be realized by both parties (e.g., Svensson & Grönroos, 2008). Conversely, if a negotiation ends and the deal is not closed, no perceived value is realized. Despite the importance of the topic, little empirical research exists that addresses how individual salespeople can positively (or negatively) shape the creation of value through effective use of negotiation techniques (Blocker, Cannon, Panagopoulos, & Sager, 2012).

For purposes of this research, we focus primarily on price as the negotiation point and price concession as a proxy for seller value. Price concession is an important determinant of value for sellers in an exchange. According to Bennett (2013), "If the price is very close to the maximum the customer is willing to pay, he or she gets very little value for the transaction, leaving the lion's share to the seller. If the price is close to the minimum the seller is willing to accept, the seller gets very little value, leaving the lion's share to the customer" (p. 2003, 2013). We utilize customer satisfaction as a proxy for customer value perceptions from the price negotiation. This approach effectively creates the tug-of-war of seller price concession versus customer satisfaction found in dyadic price negotiation. To illustrate, most organizations try to charge customers the maximum amount to achieve margin or sales goals while maintaining customer satisfaction and repurchase intentions (Dolan & Simon, 1996). Often an organization's pricing strategy is reflective of what customers are willing to pay. In order to match individual preferences, many companies, especially retailers, allow customers to negotiate for discounts in order to reach their pricing preferences (Nagle & Holden, 1995).

The present research seeks to answer the following question: for B2C firms that negotiate, which salesperson negotiation strategies (SNSs) are most effective for generating positive exchanges, given a customer's level of consumer persuasion knowledge (CPK)? To investigate this, we study the negotiations between automobile salespeople and consumers. We study negotiation in this quintessential consumer sales setting in an effort to provide future research opportunities to examine this phenomenon in similar consumer sales settings in both products (i.e., furniture, jewelry, and home goods) and services (i.e., insurance, financial, and home services) where power has, and continues to, shift to buyers from sellers. In so doing, this work contributes to the sales, marketing, and negotiation literature in three main ways. First, from a theoretical perspective, the current study explores how the CPK (i.e., the customer's understanding of persuasion and negotiation) and the SNS employed by the salesperson interact in a B2C sales negotiation. The various interactions between these variables are hypothesized to determine value outcomes based on customer perceptions of justice and the nature of the SNS employed by the salesperson. Second, from an empirical perspective, we address the need for multi-source, micro-level negotiation research by using unique dyadic survey data paired with objective pricing data. Third, and finally, from a managerial perspective, we provide results that indicate the effectiveness of the various SNSs, depending on a customer's level of CPK, which provides implications for various "real world" sales negotiation situations. In other words, we provide fine grained recommendations regarding how salespeople can adapt their use of SNSs depending on the customer's CPK in order to maximize perceived customer value. Adaptive selling research has primarily focused on the generality of adaptive selling. Our hope is to offer some insights at the more granular level to show the impact of changes in negotiation strategies as they relate to customers' behaviors and knowledge.

1. Conceptual development

The conceptual model of the current study (Fig. 1) illustrates the expected value outcomes of customer CPK levels and salesperson use of one of four SNSs during sales negotiation. It is important to note that there are multiple dimensions of consumer value. For example, the commonly used consumer perceived value scale (Sweeney & Soutar, 2001) identifies four factors of customer perceived value: emotional value, social value, price, and performance of the product/service. While value perceptions can change depending on personal or contextual situations, price is a common underlying factor. In consumer settings, price value is a typical area for negotiation because less tangible value perceptions are difficult to directly negotiate. Thus, to assess the value derived from a negotiation for the seller, price concessions can be used to indicate a quantifiable measure of how value is derived at the conclusion of a negation (e.g., larger price concessions indicate a lower share of value for sellers). To determine