

In a nutshell: Are organizational buyers rational? Using price heuristics in functional risk judgment

Scientific articles contain valuable management implications but are usually not very easy to digest. We summarize the core results so that you can use the latest research findings for your company.

Original

The prevailing view in B2B price theories is that managers make rational decisions free from heuristic processes and have sufficient cognitive ability to make rational and bias-free purchase decisions. [...]

[However,] we posit that responses to price stimuli in the B2B context are not as rational and normative as the previous B2B literature states, so managers may infer functional risk from price level [...]. Our objective is to evaluate the effect of price levels on perceived functional risk in the B2B context, examining potential moderators that affect such relationships, such as the importance of the purchase decision and type of product involved in the purchase decision, with individual characteristics as covariates. [...] [To this end,] we conducted an experiment manipulating the price, importance of the decision, and type of product.

Overall, the results provide evidence in a number of instances that price influenced functional risk perception, supporting [the hypothesis that] higher prices will lead managers to perceive lower product functional risk. [...] Even in a decision context considered very important and with severe consequences, which would naturally require thoughtful analysis, managers strongly employed price as a heuristic to manage and reduce risk. Under high importance decision set, managers became much less price sensitive and the high price product was more likely to be chosen.

[...] Our conclusions also have implications for B2B theories that explain price responses in organizational contexts. The value-based price normative frameworks, in which price is determined by benefits and risk level might not be sufficient to understand the response to price stimuli. In this traditional view, price should be set according to the benefits and risk level. If the benefits and risk are superior, the price should reflect that. [...] Our results suggest that the perception of risk is not an absolute objective measure, but it can be a bias perception influenced by price as well.

Source:

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Key statements

Until now, it had always been assumed that purchase decisions in the B2B sector were rational and unbiased. However, as research in the B2C sector has shown, end consumers will use the price of a product to make a better assessment of the risk associated with their purchase decision; for example, a higher price suggests a higher-quality product, meaning the risk of purchasing a defective product is perceived as being lower.

This article explores the hypothesis that managers in the B2B sector draw on similar heuristic processes and allow themselves to be influenced by prices when making a purchase decision. To test this hypothesis, the authors conducted an experiment with 147 managers, analyzing the relationship between price level, the importance of the purchase decision, and the type of product involved. With this experiment, they were able to prove that managers in the B2B sector do indeed tend to assess a product's functional risk based on its price, assigning a lower level of risk to products with a higher price just as an end consumer might. This also applies in cases where more complex decisions that may have severe consequences need to be made. The following findings may be useful for companies in determining their pricing strategies:

- **Value-based pricing 2.0:** Expand on the traditional pricing approaches and consider a product's risk as well as its benefits, as perceived by the customer.
- **Leverage a customer's willingness to pay:** Find out the importance of the purchase decision to the customers and adapt your prices depending on how willing they are to pay for your products and services.
- **Tread carefully with price reductions:** Do not act with haste when it comes to reducing prices or offering discounts, as lower prices may make your products and services less appealing in the eyes of your customers.

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Would you like to learn more? Do not hesitate to contact Anna Lindenau in case any questions remain unresolved.

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