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Impact of Price Wars on Sales Performance of Carbonated Drinks Companies in Kenya: A Case of Highlands Drinks Limited.

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Abstract

Aim: This study focused on examining the impact of price wars on sales performance of carbonated drinks companies in Kenya with reference to Highlands Drinks Limited.

Methods: The study adopted a descriptive research design that gathered both quantitative and qualitative data. The target population comprised of 300 managers from different carbonated drinks companies that sell their products in Nyeri town. After employing stratified random sampling, the sample size was 90 respondents which was 30% of the target population. The study employed a questionnaire to obtain primary data whose reliability was tested through Cronbach's alpha in which 0.789 value was obtained which was acceptable. The questionnaire return rate was 94.44%. Quantitative data was analyzed using the Statistical Package for Social Sciences (SPSS) version 20 and presented as figures and tables for clarity. Qualitative data was used to supplement interpretation of quantitative data.

Results: The findings showed that the days of wild growth and huge profits for Kenya's carbonated soft drink manufacturers could be over as price war continue to intensify due to competition pressures. It was evident that refraining from price cuts would cause sale volumes of the former duopoly (Coca-Cola and a Pepsi) to plunge even further than had been experienced, given the low per capita consumption of carbonated soft drinks in Kenya. Also, the study found out that even though price cuts are an advantage of consumers, it is a disadvantage to manufacturers as it affects their profitability, which also in turn reduces taxes to government.

Conclusion: The main competing strategy employed by majority of carbonated drinks manufacturer was pricing. Pricing is one of the important decisions that need to be made by a firm and which affects its revenue and profitability.

Recommendations: The study recommends the carbonated drinks manufacturers in Kenya to adopt non price competition strategies that can be employed by business owners and sales reps to avoid a price war. These strategies include price matching, evaluating competitors, product re-branding, increasing stockists, and creative advertising.

Keywords: *Carbonated drinks, price war, and pricing strategy.*

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1.0 INTRODUCTION

For several decades, Coca-Cola and Pepsi commanded the biggest share of the carbonated drinks market in Kenya despite the entrance of new players. Although Coca-Cola and Pepsi had underestimated the impact the new entrants would have on their sales, they were later forced to intensify their marketing. Other major players in the Kenyan soft drink market include Delmonte, Kevian, Highland Drinks, and Picanna Juices. As time progressed, the economic integration of East African countries of Kenya, Uganda, Tanzania and Rwanda led to the reduction of trade barriers between the regional bloc (Muli & Aduda, 2017). This integration saw other new entrant such as Riham, Lavita, Fizzy and Azam, enter the Kenya market hence intensifying competition pressures and dimming the days of wild growth and huge profits for the carbonated drinks giants. Virtually all players have similar products range in terms of the flavours offered in the market. Another factor contributing to the proliferation of brands within the industry is the influx of cheap imports from countries such as India and China into the market. This has introduced even more brands in an already overcrowded market (Mugo, 2019)

Due to stiff competition, some carbonated drinks manufacturers were later forced to discount their prices to appear cheaper than the competition so as to appeal to price sensitive consumers, a market that was getting more competitive. For instance, the 320ml Riham plastic bottled soda products, which were cheaper and convenient (then retailing at Ksh 30) were quickly gaining an edge over Coca-Cola and Pepsi whose cheapest 300ml returnable glass bottled products were also selling at Ksh 30. Refraining from price cuts would cause sale volumes of the former duopoly to plunge even further than had been experienced given the low per capita consumption of carbonated soft drinks in Kenya. Coca-Cola, for instance, reduced the price of its 300ml glass bottled soda from Ksh 30 to Sh 25 while the 350ml plastic-bottled (kadogo soda) was cut from Ksh 35 to Ksh 30. Pespi on the other hand followed suit and reduced their 500ml and one-litre plastic bottled sodas from Ksh Ksh 60 to Ksh 45 and from Ksh 90 to Ksh 75 respectively. To avoid being perceived as an expensive brand, Riham, also later slashed the price for its 320ml soda brands from Ksh 30 to Ksh 25 and from Ksh 45 to Ksh 35 for the 500ml sodas.

The main competing strategy employed by majority of carbonated drinks manufacturer was pricing. According to De Toni, Milan, Saciloto, and Larentis (2017), pricing is one of the important decisions that need to be made by a firm and which affects its revenue and profitability. In determining the price of a product, a company or marketing manager needs to consider not only the costs it takes to produce the item, but also the customer's perception on the value of the product. In essence, companies strive to get the maximum margin by looking at a whole range of possibilities to set the right price to certain types of customer. As stated by De Toni et al. (2017), managers should follow a number of alternative pricing strategies. Some price decisions may involve complex calculation methods, while others are intuitive judgments. Managers should select a pricing strategy based on the product, customer demand, the competitive environment, and the other products being offered by the company. Consideration of other products being offered by the company will ensure that there is no cannibalization between products from the same organization. The pricing strategies that organization can employ include, cost plus, value based, competitive, going rate, skimming, loss leader, discount, and psychological pricing strategies. Carbonated drink manufacturers need to understand and put in place pricing strategies that will enhance their sales performance and be able to maintain their market positions. According to

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Hinterhuber and Snelgrove (2017), there are challenges that limit companies as they formulate price strategies. Despite the availability of studies on price war, there is no study on how price war impact of price wars sales performance of carbonated drinks companies in Kenya. It is the purpose of this study to focus on bringing that research gap with reference to Highlands Drinks Limited.

2.0 LITERATURE REVIEW

2.1 Theoretical framework

2.1.1 Capability-Based Theory

This research is anchored on the Capability-Based Theory. Proponents of the theory look at capabilities as what's done to result into improved market performance while resources are what brings about capabilities (Grant, 1991). Though Amit and Shoemaker (2016) view, they tend to argue that resources hardly lead to sustained competitive advantages for a firm while on the other hand its capabilities that contribute to this. In this very sense and in agreement with Haas and Hansen (2005) capabilities are crucial in helping a firm gain high market performance. Capabilities arguably entail firm's capacity to leverage its assets in a way that influence the end product (Amit & Shoemaker, 2016). This all together must be done for the benefit of the consumers. Smith and Woodside (2009) in line with pricing theory postulates that consumers in every society are anxious on what they have to buy just like producers do. In this case the consumer is interested in cheaper or dearer goods, while the producer's interest is in prices of inputs he/she uses. This study conceptualises pricing strategy of a firm as capability area that enables a firm to achieve or meet its marginal costs and remain a going concern. A firm's pricing strategy is a dynamic capability that enable it deal with the most difficult dynamics of the market related to customer needs. Indeed, Teece, Pisano and Schuen (2000) just like Grant (1996) contend that capability of firm gives it ability to do certain value creation functions that directly lead to sales returns.

The overriding cause for pricing is to set the best price, with in the broad pricing strategy target of convincing the buyer that it will maximize his satisfaction (Hinterhuber & Liozu, 2014). Pricing is an important strategic issue (capability) because it is related to product positioning, the reason why many different strategies are used to either price competitively or to differentiate the brand through a strategic pricing model. Depending on which stage of product life, firms' pricing strategy has to align to changing needs of the market (Porter, 1980). Researchers in this study expect that CBCL has to plan and set or manage prices if it is to compete successfully on the market. They must be conversant with buyers' perceptions of quality and buyers' sensitivity to price. This is because buyers decide whether or not to buy by comparing benefits received for the price they pay. Since consumers and producers in every community are affected by rise or fall in prices (Barron et al., 2004), business firms should attend to this fear in their pricing strategy. Promotional pricing, penetration pricing and Oligopoly pricing are pricing models that well define the extent to which firms are competing on the basis of price or not and can influence a firm's bottom line. In this case they are envisaged as key pricing capability areas of a firm according to Capability-Based Theory

2.2 Empirical Literature

In some industries soft drink firms have tried to undercut one another's prices as strategic move to gaining competitive advantage. It is a form of competition where prices set by firms are below the prices charged by other players in the industry. Such market scenario has been described by Busse

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(2000) as price war. Price-based competitions differ from non-price-based competitions and, specifically for this study, prior studies have yielded conflicting results on price wars for firms. A study by Van Heerde et al. (2008) reports positive results of price war in terms of increasing a firm’s price image and also helping in revamping slipping market share. Heil and Helsen (2001) also confirm that price wars increase store sales temporarily. Margaret (2013) reports positive and significant association between penetration pricing strategy and performance, just like Perminus and Wilson (2017) while studying insurance companies in Kenya. Additionally, Bingqun, Kejia and Tingjui (2016) basing on a sample of 40 manufacturing plants in China report positive benefits of promotional pricing where discounts and deals lure customers to the store. Though reporting on price optimization is risky, Robert (2019) agrees that it increase sales, by attracting customers as a better mechanism for staying competitive. Furthermore Tong and Zhang (2011) tend to support oligopoly tendencies (monopoly pricing) especially in situations of optimal production, yet Stuart and Patrick (2014) observe that price rigidity positively impacts production. These findings tend to agree with Capability-Based Theory and views by Smith and Woodside (2009) who see a big potential in a firm’s pricing strategy as a capability area that can contribute to a firm’s competitive position.

Indeed it’s agreeable that pricing decisions have significant impact on how a firm achieves competing dimensions in a short-term. Contrary to these assertions, Benaissa and Segarra (2011) in a study on price wars among super markets report price sensitivity aspect on the side of customers which was found to increase during price war period which absolutely does not benefit firms. Other scholars have reported tendency of price alliances instead of price wars when investigating price wars effects on performance of supply chains (Xiangbin & Zhou, 2019). This resembles the tendency for Managers to disassociate with price war phenomena as was reported by SimonKucher and Partners (2016) in a study where more than 85% of those firms surveyed in Global Pricing Study, blamed their competitors for initiating the price war. Moreover, for some products, small increases or decreases in price may not cause customers to react negatively especially when it is non-frequently purchased product (Smith & Woodside, 2009) or even others find difficulty in assessing the sales implication of a 2-cent decrease in price of a commodity since customers may not find it meaningful. Relatedly, Howard and James (2013) indicate that in situations where uncontrollable environment dominates the pricing behaviour, there are tendencies of external orientation among managers to deflect risk away. Whereas price wars have been studied in the context of supermarkets (Benaissa & Segarra, 2011), in supply chain networks (Xiangbin & Zhou, 2019), in the service industry (Krämer, Jung & Burgartz, 2016) from the perspective of sales performance, price wars have not been studied in the context of soft drinks. A few studies on price war have used different approaches and methodology which has resulted in conflicting findings as presented above. So the study in connection with Capability-Based Theory investigated price war as a managerial condition for gaining competitive advantage.

3.0 METHODOLOGY

The study adopted a descriptive research design that gathered both quantitative and qualitative data. The target population comprised of 300 managers from different carbonated drinks companies that sell their products in Nyeri town. After employing stratified random sampling, the sample size was 90 respondents which was 30% of the target population as postulated by Mugenda and Mugenda (2003). The study employed a self-administered the questionnaire to obtain primary

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data whose reliability was tested through Cronbach's alpha in which 0.789 value was obtained which was acceptable. The questionnaire return rate was 94.44%. Quantitative data was analyzed using the Statistical Package for Social Sciences (SPSS) version 20 and presented as figures and tables for clarity. Qualitative data was used to supplement interpretation of quantitative data.

4.0 RESULTS AND DISCUSSION

The sample size selected was 90 respondents which was 30% of the target population. The questionnaire return rate was 94.44% indicating that 85 respondents filled and returned the questionnaires. Respondents were asked which pricing model they employ to enhance their sales performance. Table 1 indicate the correlation results from the three pricing models that were employed by majority of companies.

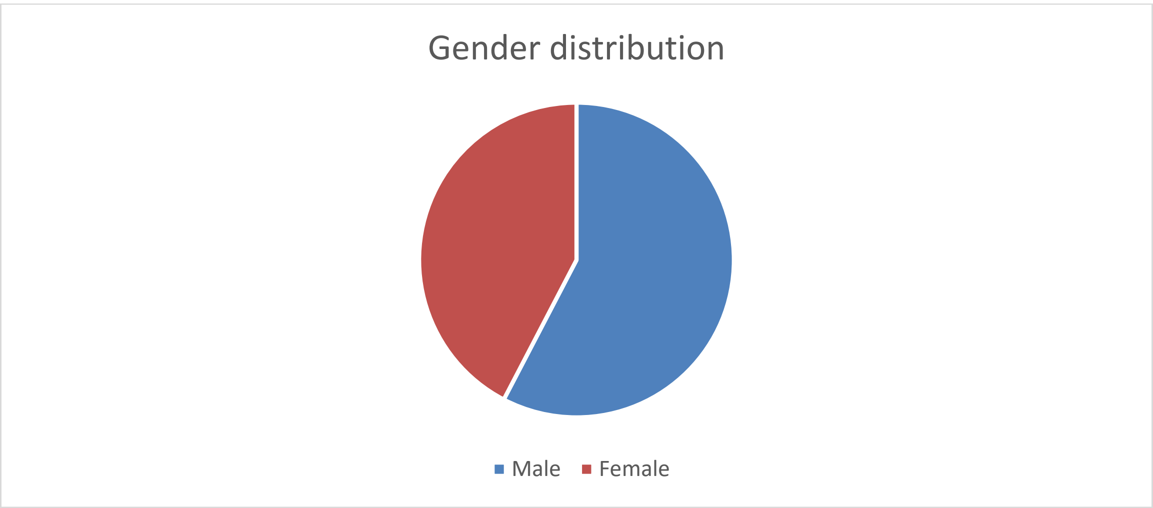

Figure 1: Gender distribution of respondents

Table 1: Correlation analysis results

No	Variables	Correlation coefficient			
		1	2	3	4
1	Sales performance	1			
2	Promotional pricing	.523**	1		
3	Penetration pricing	.368**	.024	1	
4	Oligopoly pricing	.575**	.233*	.108	1

***Correlation is significant at the 0.01 level (single-tailed).*

**Correlation is not significant at the 0.01 level (single-tailed).*

Results as indicated in table 1 shows that there was a strong positive significant relationship between promotional pricing and sales performance for carbonated drinks companies where

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Pearson's correlation coefficient r = 0.575** and p = 0.000. This finding means that when promotional pricing is given more attention, sales performance of carbonated drinks companies will improve by a big proportion. The positive nature of the correlation implies that carbonated drinks companies would register improved sales performance if they focused more on promotional pricing. The results are in line with Aydinli, Bertini, and Lambrecht (2014) who contend that promotional pricing helps sellers to properly understand customers and satisfy their needs accordingly which leads to improved sales performance. One of the managers indicated that promotion-based pricing has been instrumental in enabling their company achieve competitive edge. She affirmed that their company had used different promotion alternatives but price has driven their sales promotion actions. Another male head of sales department indicated that they derive several benefits from using price-based promotions considering that carbonated drinks segment is becoming flooded with many alternatives from competitors. He stated that being perceived by consumers as relatively cheaper option is key to increasing sales performance.

The results further shows that there was a moderate positive significant relationship between penetration pricing and sales performance for different carbonated drinks companies where Pearson's correlation coefficient r = 0.368** and p = 0.000. This finding means that when carbonated drinks companies reduces the price of their products, they appear more attractive thus, sales performance automatically improve by a significant proportion. A male respondent stated that price war used by their competitors have helped their company significantly in identifying locations that their company has customer patronage. Another sales manager from a different carbonated drinks company indicated that she has no doubt that under cutting prices of their competitors has positively influenced their company's sales figures. The results are in support of Ricky (2004) who stated that significant reduction in price increases sales. Even though, it is more effective in creating more awareness among customers, care is taken upon costs of production.

Lastly, oligopoly pricing was correlated with sales performance and results show that there was a strong positive significant relationship between personal selling and sales performance for carbonated drinks companies where Pearson's correlation coefficient r = 0.575** and p = 0.000. This finding showed that when oligopoly pricing is given more attention, sales performance at carbonated drinks companies will improve by a big proportion. The positive nature of the correlation implies that carbonated drinks companies would register improved sales performance, if they focused more on setting their prices based on their competitors' prices and match with advertised competitor prices. This finding is reinforced by one of the sales manager who indicated that their pricing has always changed according to market size and consumer characteristics The manager further stated that their company's pricing practice has always been shaped by competitors' actions besides behavior of customers.

The respondents were asked to identify how price war has affected their respective company's sales performance. The relationship between price war and sales performance for the different carbonated drinks companies is summarized as regression results in table 2.

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Table 2: Regression results between price war and sales performance for the different carbonated drinks companies.

Variables Model	Unstandardized β Coefficients	t	Standardized β Coefficients	t	Sig.
Promotional pricing	.358	0.119	.396	3.024	.004
Penetration pricing	.252	0.118	.277	2.101	.038
Oligopoly pricing	.484	0.116	.514	4.207	.000

R =0.628   R- square = 0.395   F= 19.263   Sig = 0.000

Dependent variable: Sales performance

The regression results in table 2 showed that price war has a strong positive relationship with sales performance. In particular, findings revealed that oligopoly pricing (Beta= .514, P<.01) is a better predictor of sales performance and this was followed by promotional pricing (Beta = .396, P<01). However, penetration pricing is not a significant predictor of sales performance with (Beta= .287, P < 01). From the results obtained, it can be noted that oligopoly pricing has the greatest significance on sales performance. This is supported by who Kotler and Keller (2009) who contend that small reduction in the prices has a potential to build a strong customers base. Such results evidence that a unit change in oligopoly prices influences sale performance by 26.4% (Adjusted $R^2 = 0.264$). Therefore, when carbonated drinks companies undercut prices offered by competitors and match advertised competitor prices, it will be able to improve its sales performance.

5.0 CONCLUSION

Basing on study findings, the researcher conclude that price wars significantly influences sales performance. Therefore, carbonated drinks companies increases their sales performance by purchasing materials from suppliers at significant discounts, slashing current profit margins in an effort to attract more customers for the short term and lower the prices on products to capture greater market. The statistically significant relationship between penetration pricing strategy and sales performance means that pricing depends on the size of the market, consumer characteristics, and competitors' actions. The statistically significant correlation suggests that the company should focus more on penetration pricing strategy because there is significant effect on the number of customers, customer loyalty and quality of products and services.

6.0 RECOMMENDATIONS

The study recommends the carbonated drinks manufacturers in Kenya to adopt non price competition strategies that can be employed by business owners and sales reps to avoid a price war. These strategies include price matching, evaluating competitors, product re-branding, and creative advertising. Additionally, the study recommend carbonated drinks companies to increase the number of managed outlets to ensure increased retailing selling. This is because, retail settling enables the company to access many final consumers in different parts of the country which leads to improved sales performance.

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Conflict of Interest

The author declares no conflict of interest.

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