Price Wars and Sales Performance at Century Bottling Company Ltd, Mbarara, Uganda

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ABSTRACT

Purpose: Even when price war has seen massive interest among scholars, it is still unclear how it affects sales performance. This study examined the relationship between price war and sales performance among carbonated drink manufacturers in Uganda: a case of Century Bottling Company Limited.

Methodology: Mixed methods design was used in this study. The population comprised of 210 employee managers and outlet managers. With the aid of Krejie and Morgan (1970)’s table, a sample size of 169 respondents was selected. Questionnaire was used to collect primary data in line with the positivism design and obtained a response rate of 55.0%. Pilot testing however preceded the final survey and we were able to check the relevancy of the instruments which was confirmed through the validity and reliability statistics that we achieved. Zero-order Pearson correlation was used to test the hypotheses.

Findings: The study results showed a strong positive and significant relationship between promotional pricing and sales performance ($r = .522, p= 0.000$). Also Penetration pricing was found to have a moderate positive and significant association with sales performance($r = .369, p= 0.000$). Last but not least, the study confirmed existence of a strong positive and significant relationship between Oligopoly pricing and sales performance at Century Bottling Company Limited ($r = .573, p= 0.000$).

Recommendations: The study recommends that century bottling company limited consider the actual situations of different manufacturers when implementing its promotional strategies in order not to suffocate them, increase the number of sales outlets to ensure increased trades and selling, since it enables the company to access many customers and also to revisit its pricing strategy where customers like low-priced commodities and offer customer discount features according to different selling contexts.

Keywords: Price war, pricing strategy, carbonated drinks, Uganda
1.0 INTRODUCTION

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. Literature tends to present challenges and difficulties that still stand in the way of companies as they formulate price strategies (Hinterhuber & Snelgrove, 2017). Century Bottling Company Ltd Uganda (Coca Cola) has endeavoured to set market goals and achieve them but not all has been well. Like other carbonated drinks manufacturers in Uganda and in the region over, competition has been high since many other carbonated drinks exist on the market in different flavours, shapes and size. It is hoped however that when pricing practices are favourable to the market segments that firms serve, it increases the company’ sales stream (Mario & Kowalkowski, 2017).

Organizations worldwide have apparently used various means to attain the set goals related to sales and this has always varied from one organization to another. Industrial organization literature has tended to portray that for organizations to succeed in the market place, they must have some kind of advantages different from their rivals. In financial life of any company pricing is one of the important tools and indeed a relevant resource or capability, though presented as a complex and challenging decision area that is largely subjective (Hinterhuber & Snelgrove, 2017). Price is globally considered as one of the marketing mix elements, most flexible that interferes the cost effectiveness and short term profitability of a company (Sirmon, Hitt & Ireland, 2003). Reportedly, other marketing “Ps” contributes to cost but it is only price that adds to the revenue stream of a firm (LaPlaca, 1997). This is so despite the fact that it is not clear which pricing strategy guarantees these outcomes for firm in different settings.

Even when price war concept in economics has been analysed in context of cartel breakdowns and other related disequilibrium phenomena (Stuart & Patrick, 2014; Tong and Zhang, 2011), recent marketing and business literature has begun to discuss the price war problem (Jobber & Shipley, 2012). Price war has been used in this study to mean a market scenario where rival firms use price as strategic weapon in attempt to compete by lowering price points on their products to undercut one another and capture greater market share (Smith and Woodside, 2009). It is therefore a firm level decision that may impact sales positively or negatively (Krämer, Jung, & Burgartz, 2016) though this may be felt differently in short and long run. Scholars like Urdan and Osaku (2005) view price wars as a market scenario requiring stronger marketing capability otherwise the expectation of gaining competitive advantage may be disadvantageous. However, this cannot be held true for all market situations since it has been reported to yield positive returns in the Fluid Milk Supermarket industry (Chidmi & Segarra, 2011). Price competition phenomena has intensified in many industrial context across the globe (Simon, 2013), and this is visible in the soft drink industry in Uganda. Though motivation for pursuing such price-based competition varies from firm to firm, literature tends to site intentions for market dominance as the most overriding (Krämer, 2016).

Perhaps Century Bottling Company engages in price-cuts to win more patronage and increase its market share. At a certain point in 2013, Century Bottling Company underestimated how new entrants in the carbonated drink industry like Riham, Fizzy, and Azam would impact on its sales. However later in the year it found it strategically important to discount its prices to appear cheaper than the competition so as to appeal to price sensitive consumers. This market scenario sparked other price-based competitive behaviour and stiffed the competition (Kulabako, 2014).
Century Bottling Company was forced to cut prices for most of her products by almost 70 in the year of 2014 in response to new and more aggressive arrivals like Hariss International which reportedly caught the traditionally known giants unaware. In situation where sales for this new arrival were skyrocketing day and night, the Century Bottling Company revamped its pricing strategies which saw Hariss International’s product sales declining. Apparently the new pricing strategies that Hariss International came up with in 2016 shocked the traditional giants again as it was able to command a sizeable five per cent market share. Even when there are no clear statistics on consumption trends among the former duopolies, Kingwill (2018), report that sales for Century Bottling Company are not as pleasant as it were before these new arrivals. Despite the tendency to dismiss price wars in the past few years in the carbonated drinks industry in Uganda, price cuts were eminent on the market. Perhaps as reported by Kulabako, (2014) because of economic challenges that started in the year of 2011, these companies had to lower prices to boost consumption of their carbonated products. Despite the documented studies on price war, it is still unclear how price war influence sales performance levels of a firm.

1.1 Statement of the Problem
According to Sarasvathy, Menon, & Kuechle, (2013), attainment of better sales performance requires a mechanism that focuses on the customer preference. If small and large organizations are to survive, attract and retain customers in the competitive market, they need to reiterate in such competitive market (Ismail, Hussain, Shah & Hussain, 2012). Century Bottling Company Limited employs various marketing tools related to price war (CBCL, 2014). Despite efforts employed by CBCL, there is evidence of decline in sales performance (Muhtar, 2014). In 2013, for example, Century Bottling Company Ltd reported revenue decline of 2% to $46.9bn. Again sales for Century Bottling Company Ltd dipped in 2014, however, by 2% to just shy of $46bn. Reported sales dropped a further 4% to $44.3bn in 2015. For this particular study context, CBCL Audit report (2016) on Mbarara branch revealed that in 2015, the company’s revenue declined by $1.2 million, while the revenue further declined by $2.5 million in 2016. The same report revealed that in 2016, the company’s customer base generally dropped leading to 15% decline in sales. Even when pricing plays a paramount role in positively impacting on revenue flow, profitability and business continuity of a firm (Jobber and Shipley, 2012), not much research has been done and apparently been neglected (Kienzler & Kowalkowski, 2017; Somervuori, 2014). In all these accounts we see factor price predominating as a prime influencer of competitive environment among carbonated drinks manufacturers but how these price-based competitions have influenced sales for Century Bottling Company Ltd is not clear (Hinterhuber & Liozu, 2012). This study was undertaken to establish the relationship between price war and sales performance levels of Century Bottling Company Ltd, Mbarara, Uganda

1.2 Research Objectives
The general objective that guided the study was to investigate the relationship between price war and sales performance among carbonated drink manufacturers in Uganda: a case of Century Bottling Company Limited.

The specific study objectives were:
i) To examine the influence of promotion pricing on sales performance at Century Bottling Company Limited.
ii. To examine the influence of penetration pricing on sales performance at Century Bottling Company Limited.

iii. To examine the influence of oligopoly pricing on sales performance at Century Bottling Company Limited.

### 2.0 THEORETICAL LITERATURE

#### 2.1 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 is what brings about capabilities (Grant, 1991). Though Amit and Shoemaker (2016)’s view tend to agree with one of Grant, 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 & 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 & 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 (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 & 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 & Wilson (2017) while studying insurance companies in Kenya. Additionally, Bingqun, Kejia & 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 & Zhang (2011) tend to support oligopoly tendencies (monopoly pricing) especially in situations of optimal production, yet Stuart & Patrick (2014) observe that price rigidity positively impacts production. These findings tend to agree with Capability-Based Theory and views by Smith & 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, & 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 & 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 & 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. On the basis of the above differing viewpoints, the study hypothesised, thus;

**H1** There is a significant positive influence of promotion pricing on sales performance at Century Bottling Company Limited.

**H2** There is a significant positive influence of penetration pricing on sales performance at Century Bottling Company Limited.
H3 There is a significant positive influence of oligopoly pricing on sales performance at Century Bottling Company Limited.

2.3 Conceptual Framework

| Independent variable | Dependent Variable |
|----------------------|--------------------|
| Price war            | Sales performance  |
| Oligopoly pricing    | Revenue            |
| Penetration pricing  | Customer base      |
| Promotional pricing  | Customer loyalty   |
|                      | Sales volumes      |

**Figure 1: Conceptual Framework**

3.0 RESEARCH METHODOLOGY

To evaluate the relationship between price war and sales performance of Century Bottling Company, the study used mixed methods approach and carried out a cross-sectional survey. The study population were 210 employees at Century Bottling Company and were able to obtain the sample of 169 respondents using Krejie & Morgan, (1970) sample determination table. These were selected using simple random sampling technique such that each had equal chances of being selected. The study relied on primary data which was collected using closed-ended self-administered questionnaires and interview guides. Efforts were made to ensure validity and reliability of the instrument by pre-testing it (Hilton, 2015) and the observed validity and reliability statistics fell within acceptable range (Amin, 2005). After field data collection exercise, data was subjected to cleaning where missing values and outliers were identified and treated in line with recommendations by Saunders et al., (2009). We also tested the compliancy of our data to parametric assumptions of Field (2017) which informed our choice on which analysis techniques to use. Pearson correlation analysis and hierarchical regression techniques were used in estimating the relationship.

4.0 RESULTS AND DISCUSSION

The study considered a sample size of 169 who were Heads of Department, Finance and Administration, Marketing and sales department and Managed Outlets managers at CBC. Only 93 filled and retuned questionnaires which gave a response rate of 55.0%.
### 4.1 Correlation results

**Table 1: Correlation results**

| Variables                  | 1     | 2    | 3    | 4     |
|----------------------------|-------|------|------|-------|
| Sales performance (1)      |       | 1    |      |       |
| Promotional pricing (2)    | .522**| 1    |      |       |
| Penetration pricing (3)    | .369**| .021 | 1    |       |
| Oligopoly pricing (4)      | .573**| .232*| .109 | 1     |

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

Results as indicated in the correlation matrix Table 4.1 shows that there was a strong positive significant relationship between promotional pricing and sales performance at CBCL where Pearson’s correlation coefficient $r = 0.573^{**}$ and $p = 0.000$. This finding confirmed our hypothesis one (H1). It means that when promotional pricing is given more attention, sales performance at CBCL will improve by a big proportion. The positive nature of the correlation implies that CBCL would register improved sales performance if they focused more on promotional pricing. The results are in line with Aydinli, Bertini, & Lambrecht, (2014) who contend that promotional pricing helps sellers to properly understand customers and satisfy their needs accordingly which leads to improved sales performance. This finding is reinforced by qualitative respondents “. Promotion-based pricing has been instrumental in enabling us achieve our sales targets [.............] We have always used different promotion alternatives but price has driven our sales promotion actions” (A female head of department respondent, Case 6).

“[.......] .... Of course benefits are many from using price-based promotions [............] Above all balancing different promotion alternatives have seen our sales increase overtime. (A male head of department, Case 8).

The results further shows that there was a moderate positive significant relationship between penetration pricing and sales performance at CBCL where Pearson’s correlation coefficient $r = 0.369^{**}$ and $p = 0.000$. This finding confirmed the hypothesis two (H2). It means that when CBCL reduces the price of her products, they are given more attention; thus, sales performance at CBCL will automatically improve by a big proportion. The view of a male respondent case number 1 reflects this, “Under cutting prices of our competitors have helped us very much ....... [......] At least this has been enabled us grow our customer patronage”.

“[......] ....... I have no doubt that under cutting prices of our competitors has influenced positively our sales figures........” (A female respondent case number 4). 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 at CBCL where Pearson’s correlation coefficient r = 0.573** and p = 0.000. This finding confirmed our hypothesis three (H3). It means that when oligopoly pricing is given more attention, sales performance at CBCL will improve by a big proportion. The positive nature of the correlation implies that CBCL 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 qualitative respondents “Our pricing has always changed according to market size and consumer characteristics [..] our pricing practice has always been shaped by competitors’ actions besides behavior of customers” (A female head of department respondent, Case 6).

[...]. Of course benefits are many from pricing on the basis of customer behavior trends...[.........] this has always helped us to keep our sales levels above our target (A male head of department, Case 8).

4.2 Regression analysis

Table 2: Regression results

| Variables       | Model | Unstandardized β | Coefficients | t    | Standardized β | Coefficients | t    | Sig. |
|-----------------|-------|------------------|--------------|------|----------------|--------------|------|------|
| Promotional pricing | .357  | 0.118            | .393         | 3.026| .003           |              |      |      |
| Penetration pricing   | .251  | 0.119            | .287         | 2.100| .039           |              |      |      |
| Oligopoly pricing      | .483  | 0.115            | .513         | 4.208| .000           |              |      |      |

R =0.627  R- square = 0.394  F= 19.264  Sig = 0.000
Dependent variable: Sales performance

The regression results in Table 4.2 showed that price war has a strong positive relationship with sales performance. In particular, findings revealed that oligopoly pricing (Beta= .513, P<.01) is a better predictor of sales performance and this was followed by promotional pricing (Beta = .393, 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 R² = 0.264). Therefore, when CBCL 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 and the discussion made, researchers conclude that promotional pricing significantly influences sales performance. Therefore, CBCL increases its 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. It is therefore concluded that promotional pricing greatly influence sales performance among carbonated soft drink manufacturers. 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; In addition, difference in the role of wholesalers in the distribution chain knowledge influences the level of sales. 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. Lastly we concluded that oligopoly pricing positively influences sales performance ($r = 0.573**; p value = 0.000$). Therefore, setting of prices based on actual pricing situation of the competitors can improve sales performance at CBCL. The effect analysis shows that the oligopoly pricing plays a significant regulatory role in improving sales performance.

6.0 RECOMMENDATIONS

Based on study findings and the conclusions drawn, researchers recommend that carbonated soft drink companies should always consider the actual situations of different manufacturers when implementing promotional price, and determine the purpose of each promotion or incentive according to company’s actual situation. There may be some differences in the market features, customer features and customer behaviors among different industries, so the applicability to other industries needs further verification by sampling data from different industries. We recommend also that every business should seek to employ penetration pricing strategy especially for new products. This is due to the fact that most customers like lowly priced commodities and even discount as they make the purchase, this encourages them and tend to be regular customers to the said enterprise. However much this strategy is emphasizing on the pricing being set low, the quality of goods and services are not supposed to be compromised. With this most of the customers will be retained and more will be attracted not forgetting that the business will extend its parameters as far as the market share in the region is concerned. Also we recommend that management at CBCL should encourage the company’s sales agents to carry out more face to face selling techniques and reach out to many customers. This is because the technique gives sales agents an opportunity to interact with customers and understand issues arising from final consumers in regard to the products sold. Eventually, the company will have a clear understanding of how to improve the quality of its products which leads to improved sales performance. Last but not least we recommended that CBCL increases 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.

7.0 Contribution to Knowledge

The study extracts the need for carbonated drink companies to strategically use pricing as a critical capability area to base on to achieve their sales performance targets. This is highly supported by the study results which showed that promotional pricing, penetration pricing and oligopoly pricing are vital for a company’s sales performance improvements.
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