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# Price Differentiation Strategy and Performance of Edible Oils Manufacturing Firms In Kenya.

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***Abstract:*** *The study purposed to establish the effect of price differentiation strategy on performance of selected edible oils manufacturing firms in Kenya. The study adopted a causal research design and was guide by the porter's theory of competitive advantage. The target population was 104 respondents which consisted of the top and middle level employees from the sales and marketing departments of the three selected edible oils manufacturing firms. The study used census sampling to include all the 104 respondents as the sample size. Purposive sampling was used to target the marketing managers and brand managers while simple random sampling was used for the sales representatives. Data was collected using a structured questionnaire, analysed using descriptive and inferential statistics and results presented using tables. The results indicated that price differentiation was evident in the manufacturing firms in Kenya and that price differentiation strategy had a positive and significant effect on the performance of the selected edible oils manufacturing firms in Kenya. The study recommended that price differentiation was essential for the improved performance of manufacturing firms and that the firms should adopted the price differentiation strategy in order to improve their sales volume, market share and profits.*

***Keywords:*** *Bulk discounting, Firm performance, Manufacturing firms, Personalized pricing, Price differentiation, Segmented pricing, Quantity pricing.*

## I. Introduction

Price is one of the core and most flexible elements of the marketing mix and price differentiation strategies are the most common and frequently used in a company's marketing strategy because of their ability to imact on a firms performance within a short time [1]. Price differenciation can take various forms depending on what the organisation deems fit for its targeted consumers. First an organisation may charge different prices to different consumers for the same product by identifying each consumers willingness to pay. This is esentially termed as personalised pricing where the selling price is customised for each consumer. Secondly, an organisation can offer deferential pricing by developing different vesions of the product having different levels of quality. Thirdly, different prices can also be charged to different groups of consumers depending on their geographic location and finally Bundling or promotional pricing where two or more products are offered as a package at a single price [2]. Consumers are naturally price sensitive and they will always choose a store or supermarket that charges reasonably lower prices compared to the one that charges higher prices because price is a factor that gives any store a copetitive edge over its competitors which will eventually lead to higher sales volume and improved firm performance [3]. Firms that perform well form a good ingredient for economic growth of their countries [4]. Performance is the end result of a process and it can be termed as the ability of an entity to produce desired results with respect to a target [5]. firm perfomance can be described as the total of how efficient and effective all units in a firm operate, the success the firm experiences in the marketplace and the general output of the employees [6]. A firm's competitive performance is usually measured by the business volume which includes sales volume and the profit arising from the sales [7]. Sales of the firm, growth of sales, the net profit and gross profit made were among the crucial financial measures preferred by the researchers in measuring performance of a firm [8]. In addition, sales volume and Profitability are the major indicators for performance of businesses and performance of firms has been measured by these indicators with success over time [9]. The economic growth of emergent and first world nations is highly dependent on the returns from the manufacturing industry without which, most of these economies would suffer and collapse [10]. In addition, the manufacturing sector is enormously paramount in other sectors of the economy since it is responsible for the provision of a substantial source of demand for goods and services in those sectors. Based on the global statistics, the manufacturing sector is the largest contributor to the global economy contributing about £ 6.7 trillion annually [11]. Competitive manufacturing is paramount to an economy since it plays a significance role on the long-term prosperity of a country. It is also responsible for the generation of revenues for governments in terms of exports and investment. Furthermore, it leads to creation of skilled jobs which is key to the growth of a nation and also pays a crucial role in the development of physical infrastructure of an economy. Manufacturing also has a spill-over effect to other areas of a country's economy for instance areas which may include construction, logistics and science [12]. The manufacturing sector in Kenya has largely remained stagnated with very limited increases in the last 3 decades in its share of GDP. For instance, between 1964 -1973 the average contribution to the GDP was 10% marginally rising to 13.6% between 1990 -2007 and averaging below 10% between the years 2008 - 2015. In the year 2017, contribution of the sector to the national GDP was 8.4% and in 2016 it was 9.2%. Since the year 2010 to date the manufacturing sector in Kenya has been experiencing difficulties which has posed a great challenge to the firms in terms of growth and profit maximization [13].

### 1.1 Statement of the Problem

The manufacturing sector in Kenya is faced with many challenges, the major one being stiff competition from foreign and counterfeit products that have flooded the market arena making it near impossible for local firms to thrive. Over the last ten years some manufacturing firms in Kenya have closed down due to poor performance which is mostly occasioned by the low productivity in the sector and stiff competition in the market. Some of these firms have transferred their production to other countries while others forced to scale down their manufacturing capacity which impacted negatively on their performance [14]. Most products especially in the edible oils sub sector are being thrown out of the market arena by cheap and counterfeit products making the firms to realised profit warnings and declining performance. The Kenyan government through their development blueprint the Vision 2030 have put down a policy framework that strives to develop a robust and competitive manufacturing sector with the capacity to strengthen sectorial linkages and stimulate economic growth [15]. In addition, the Vision 2030 also proposed that there is need to strengthen the capacity and local content of domestically manufactured goods; Enhance research and development; raise share products in the regional market from 7% to 15% and ensure development of niche products for both new and existing markets [16]. Moreover, the government has also designed the Kenya Industrial Transformation Programme (KITP) and the Big 4 Agenda to revamp the sector [13]. The manufacturing sector in Kenya contributed barely 9.2 per cent to the GDP in the year 2016 indicating a decline from the previous year 2015 where the sector had reported a 5.6 per cent growth [17] and in 2017 the sectors contribution to the GDP was a mere 8.4% which further declined in the year 2018 up to 7.0% [13]. Form the above sentiments it is therefore evident that Kenya is going through premature de-industrialization in the sense that manufacturing and industry are still relatively under-developed which is very detrimental to the economic growth of the country [18]. From these relations, it was quite evident that drastic measures need to be taken to boost the sectors performance.

### 1.2 Objective of the Study

To establish the effects of price differentiation strategy on performance of selected edible oils manufacturing firms in Kenya

### 1.3 Research Hypothesis

**$H_{01}$**: Price differentiation strategy has no significant effect on the performance of selected edible oils manufacturing firms in Kenya

## II. Literature Review

### 2.1 Theoretical Literature Review

Porter's theory of competitive advantage seeks to offer a sophisticated framework for the analysis of the competitiveness of a company and its implications. The theory also plays a very crucial role in the understanding of competitive advantage in the international trade and production [19]. The competitive advantage of a company is largely reliant on a localized, clustering process that is knowledge generating in an innovative manner and generally involves institutions, cultures, values, and history [20]. From the perspective of porter's theory of competitive advantage, a nation's competitiveness is a product of four major variables. These variables include: i. the factor conditions (human resources, physical resources, knowledge resources, capital resources and infrastructure resources), ii. Demand conditions, iii. Related and supporting industries (Suppliers, wholesalers, retailers) & firm's strategy, structure, and rivalry. Moreover, it is important to consider that while these factors might influence the competitive advantage of a whole country, their nature is indicative that they are tailored to industry rather than the nation. Besides, the author goes further to separate competitiveness from the nation and anchor it on the industry by stating that the industry is responsible for creating an environment in which it can compete effectively and have a competitive advantage over other industries [21]. According to the researcher, firm rivalry is the main ingredient towards innovation. Due to the increase in competition among firms, most firms are forced to rethink on better strategies to compete effectively in the market arena, this forces most firms to innovate their products through differentiation strategies in order to gain a competitive edge and out do the competitors. .

## 2.2 Conceptual Literature Review

Price is a value attached to a product or a service offered by a business [22]. The author goes further to explain that price differentiation refers to a pricing strategy that charges various segments of the market altered prices for the same product or services. Simillarly, Price differenciation can take various forms depending on what the organisation deems fit for its targeted consumers. First an organisation may charge different prices to different consumers for the same product by identifying each consumers willingness to pay. This is esentially termed as personalised pricing where the selling price is customised for each consumer. Secondly, an organisation can offer deferential pricing by developing different vesions of the product having different levels of quality. Thirdly, different prices can also be charged to different groups of consumers depending on their geographic location and finally Bundling or promotional pricing where two or more products are offered as a package at a single price [2]. Price differentiation is one of the main elements of yield management practices that are also known as revenue management. The primary concept of price differentiation is to segment a market into multiple market segments using differentiated price where each market segment offers potentially a different price or sale conditions [23]. Some outhors have pointed to several different examples of price differentiation from real businesses for instance, personalised pricing within the airline tickets to passengers who are more likely to pay much in advance and accept the fines due to last minute cancellation. However, other airlines might reserve seats for the late arriving passengers who are less price sensitive and are more willing to pay for the tickets. Similarly, this happens in the case of hotel management whereas hotels tend to set higher prices in the weekdays as compared to the weekends [24]. Price differentiation is an important aspect for enhancing customer satisfaction and firm performance [25]. The authors conducted a research in Malysia that concentated on segemented pricing, target pricing, personalised pricing and sales promotion as main indicators of price diffrentiation and concluded that indeed price differentiation is esential for customer satisfaction and enhanced firm performance., price is an improtant factor of consideration for low-income consumers when purcahsing consumable goods as compared to the high in- come earners. Therefore, firms that concentarete on price differentiation in terms of dicounted prices and sales promotion are likely to retain consumers and increase sales volume [26].

## 2.3 Empirical Literature Review

Several scholars have conducted studies both globally, regionally and locally that relate to price differentiation and firm performance. For instance, [27] investigated the influence of brand equity and product distinctiveness on the firm's market performance. The research was founded on industrial organization theory and modern pricing theory. According to the results of the analysis, premium pricing was positively related to product differentiation and firm performance. Similarly [28] conducted a study on the effect of innovation and leadership on firm performance of hotels in Surabaya, Indonesia and found out that the hotels differentiate prices of services and products to ensure achievement of competitive advantage. [29] In their study on greening and price differentiation coordination in a supply chain with partial demand information and cannibalization found out that the selling of green and regular products at different prices can significantly improve the profitability of both the manufacturer and retailer. Additionally, [30] conducted a study on the role of price differentiation as a mathematical and economic model of increasing the economic strength of the firms, the findings of the study showed that price differentiation is one of the important strategies for achieving competitive advantage of a firm.

Regionally, [31] studied the competitiveness of major ports in West Africa using a process of analytical hierarchy. The results of the study showed that price differential was paramount for competitiveness. On the other hand, [32] conducted a study on competitive strategies and performance in the construction industry which employed an inductive research approach using a structured questionnaire to collect data from large construction companies in South Africa. The study concluded that price differentiation was crucial for competitive advantage and assisting organizations to achieve their financial performance goals. [33] In his study on building material price differentiation across geographic locations in South Africa. The study employed a quantitative research approach based on a survey research design. The results indicated that price differentiation is influenced by several factors such as transport and location. [34] Conducted a study on incentives for stallholders to enhance the production of quality cocoa beans in Ghana. The results showed that when farmers are exposed to price differentiation, they respond positively and improve quality production which in turn leads to more sales.

Locally in Kenya, [35] in her study on pricing differentiation strategy on customer satisfaction in Large Retail Supermarkets in Kenya reveals that pricing differentiation has a significant effect on customer satisfaction.

Additionally, [36] in their study on influence of competitive strategies on the performance of telecommunication companies in Kenya concluded that price differentiation positively affected the performance of firms in the sector. Similarly, [37] in their study conducted in Kenya observed that price differentiation is rewarding to companies that employ differentiation in food and beverages industry. Consequently, [38] in their study on contribution of differentiation strategy on the competitive advantage of SMEs in Nyahururu, Kenya observed that 23% of the sampled SMEs applied price differentiation since they offered quality products. They still managed to have customer loyalty since their customers were not price sensitive. The study further concluded that Price differentiation has a positive impact on competitiveness of the business.

## 2.4 Conceptual Framework

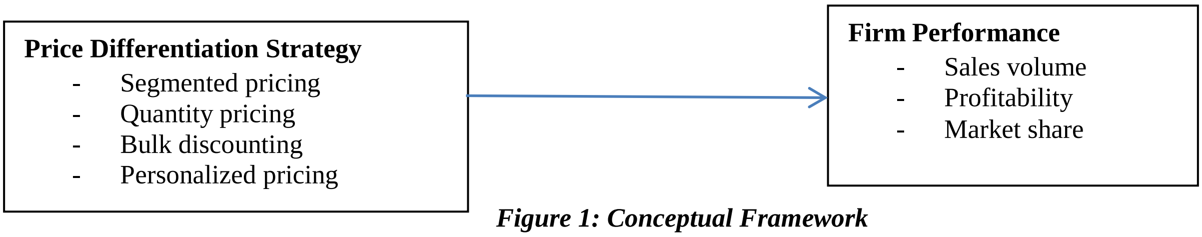


***Figure 1: Conceptual Framework***

*Source: Researcher (2022)*

## III. Methodology

The study employed a causal research design which enabled the researcher to identify nature and the extent of the cause and effect relationship between the dependent and independent variables. The study was conducted in 3 selected edible oils manufacturing firms which included; Unilever Kenya Limited, Bidco Africa and Kapa Oil Refineries. The 3 firms were selected out of a total of 10 edible oils manufacturing firms in Kenya because they hold the largest market share in the sector and the edible oils sub- sector was selected because it is the only sector in Kenya that is regionally competitive in the manufacturing industry [13]. The study targeted 104 top and middle level employees working in the sales and marketing department of the 3 selected edible oil manufacturing firms and since the population was small, a census of all the 104 respondents was conducted. Purposive sampling was used to sample the marketing managers and brand managers while simple random sampling was used to sample the sales representatives. A structured questionnaire was used to collect data. Data was analysed using SPSS version 23 as the statistical tool and presented using tables.

## IV. Results And Discussions

### 4.1 Descriptive Statistics

### 4.1.1 Duration of service in the company

Most of the respondents 67 (78.8%) had served in the respective companies for more than five years. This means that they have served in the respective companies long enough to understand the operations within their firms. According to [39] an employee who has spent more than four years in a position or firm is deemed to have understood various aspects of operations and performance.

**TABLE 1: Effect of Price Differentiation Strategies on Firm Performance**

| Variables | Yes | No |
|---|---|---|
| Firms having developed any price differentiation strategies | 69(81.2%) | 16(18.8%) |
| Charging different prices to different consumer segments for the same product (Segmented pricing) being adopted by the firm as price differentiation strategy | 66(77.6%) | 19(22.4%) |
| Varying prices for different quantities of the products (Quantity pricing) being adopted by the firm as price differentiation strategy | 72(84.7%) | 13(15.3%) |
| Bulking products together and selling them at one price (Bulk discounting) being adopted by the firm as price differentiation strategy | 58(68.2%) | 27(31.8%) |
| Selling the same product to different consumers at different prices (Personalised pricing) being adopted by the firm as price differentiation strategy | 20(23.5%) | 65(76.5%) |
| Have the price differentiation strategies adopted by the firm caused increase in sales volume | 57(67.1%) | 28(32.9%) |
| Have the price differentiation strategies adopted by the firm caused increase in | 52(61.2%) | 33(38.8%) |

| | | |
|---|---|---|
| profits | | |
| Have the price differentiation strategies adopted by the firm caused increase in market share | 46(54.1%) | 36(45.9%) |

*Source: Research Data (2022)*

Form the results in table 1 above, the study established that, most of the edible oils manufacturing firms in Kenya 69(81.2%) have developed price differentiation strategies while only a few 16(18.8%) have not. The results further established that Segmented pricing 66(77.6%) Quantity pricing 72(84.7%) and Bulk discounting 58(68.2%) were the main price differentiation adopted by the firms while personalised pricing was not as indicated by a larger percentage of respondents 65(76.5%) who said their firms had not developed this strategy. In addition, the study established that the price differentiation strategies adopted by the firms have caused an increase in sales volume 57(67.1%), profits 52(61.2%) and market share 46(54.1%). According to Cherono (2015), when a company engages in price differentiation, there is a possibility of attracting more customers; hence, yielding more sales. Trifonov, Grichin and Kovaleva (2014) found out that selling products at different prices to different consumer segments significantly improved the profitability of the firms. Similarly, Odhiambo (2018) noted that since the company can keep customers of different statuses by adopting price differentiation, there will be an increase in market share.

**TABLE 2: Effect of Price Differentiation Strategies on Product Categories**

| **Variables** | **Very high extent** | **High extent** | **Moderate extent** | **Low extent** | **No extent** |
|---|---|---|---|---|---|
| Extent to which price differentiation strategies adopted by the firm have been applied to personal care products | 11(12.9%) | 27(31.8%) | 20(23.5%) | 21(24.7%) | 6(7.1%) |
| Extent to which price differentiation strategies adopted by the firm have been applied to home care products | 9(10.6%) | 13(15.3%) | 40(47.1%) | 13(15.3%) | 10(11.8%) |
| Extent to which price differentiation strategies adopted by the firm have been applied to edible oils | 14(16.5%) | 30(35.3%) | 26(30.6%) | 13(15.3%) | 2(2.4%) |
| Extent to which price differentiation strategies adopted by the firm have affected the performance of personal care products | 35(41.2%) | 20(23.5%) | 15(17.6%) | 10(11.8%) | 5(5.9%) |
| Extent to which price differentiation strategies adopted by the firm have affected the performance of home care products | 12(14.1%) | 43(50.6%) | 11(12.9%) | 15(17.6%) | 4(4.7%) |
| Extent to which price differentiation strategies adopted by the firm have affected the performance of edible oils | 27(31.8%) | 15(17.6%) | 21(24.7%) | 12(14.1%) | 10(11.8%) |
| Extent of effect of price differentiation strategies on the general firm performance | 12(14.1%) | 38(44.7%) | 31(35.3%) | 4(5.9%) | 0(0.0%) |

*Source: Research Data (2022)*

The analysis of the results from table 2 above revealed that, most of the respondents indicated very high to moderate extent to which price differentiation strategies adopted by the firm have been applied to personal care products 58(68.2%), home care products 62(73.0%) and to edible oils 70(82.4). This revealed that as much as price differentiation strategies have been applied to all product categories, they have been highly applied on edible oils followed by home care products and finally personal care products. This can be explained on the ground of daily demand; the daily demand for the edible oils is relatively high. The finding can also be linked to the findings of a study by Windapo (2017) which found out that the price differentiation of a product is chiefly driven by factors such as transport, location and the needs with which the product is designed to meet. The edible oils for instance, are designed to meet the daily food needs hence repeat purchase is stronger. The results further established a very high to moderate extent to which price differentiation strategies adopted by the firm have affected the performance of personal care products 70(82.3), home care products 66(77.6) and edible oils 63(74.1). Davčik and Rund quist (2012) indicated that demand is a major influence when it comes to pricing. Basic commodities are likely to have less demand as a result; price differentiation may have little effect since they are likely to be purchased with or without differentiated prices. Finally the results also revealed that price differentiation strategies adopted by the firms have affected the general firm performance to a high extent 50(58.8).

**TABLE 3: Performance of the Edible Oils Manufacturing Firms**

| Variables | Increasing | Static | Decreasing |
|---|---|---|---|
| The status of annual sales volume due to adoption of price differentiation strategies | 45(52.9%) | 27(31.8%) | 13(15.3%) |
| The status of annual profits due to adoption of price differentiation strategies | 38(44.7%) | 31(36.5%) | 16(18.8%) |
| The status of marker share due to adoption of price differentiation strategies | 50(58.8%) | 30(35.3%) | 5(5.9%) |

*Source: Research Data (2022)*

From the results in table 3 above, most of the responds indicated that the status of annual sales volume 45(52.9%), annual profits 38(44.7%) and market share 50(58.8%) had increased due to adoption of price differentiation strategies. This indicates that the performance of the firms had increased due to adoption of the price differentiation strategies. Davčik and Rundquist (2012) indicated that premium pricing was positively associated with product differentiation and sales volume.

## 4.2 Inferential Statistics

### 4.2.1 Price Differentiation and Performance of selected Edible Oils in Kenya

The first hypothesis was on price differentiation strategy and performance of selected edible oils manufacturing firms in Kenya. The null and alternative hypotheses stated:

***$H_{01}$:*** *Price differentiation strategy has no significant effect on performance of selected edible oils manufacturing firms in Kenya*

***$H_{11}$:*** *Price differentiation strategy has a significant effect on performance of selected edible oils manufacturing firms in Kenya*

The results of the regression analysis are as follows:

**TABLE 4: Model Summary for Price Differentiation and Performance**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .074[a] | .060 | .119 | 1.2649 |

a. Predictors: (Constant), Price Differentiation Strategy
*Source: Research data (2022)*

From the study findings in Table 4 above, the value of r-square is 0.060. This implies that, 6.0% of variation of performance of selected edible oils manufacturing firms in Kenya was explained by price differentiation strategy. Given that the r-square was not equal to zero, the study assumed that the model was a good fit for the data. However, to further confirm the goodness of fit of the model, ANOVA was conducted. The results of the ANOVA are summarized in the following table 5.

**TABLE 5: ANOVA for Price Differentiation and Performance**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 29.766 | 1 | 4.961 | .044 | .039[b] |
| | Residual | 22.892 | 8 | .177 | | |
| | Total | 52.657 | 9 | | | |

a. Dependent Variable: performance

b. Predictors: (Constant), Price Differentiation Strategy

*Source: Research data (2022)*

The ANOVA uses the F-statistic to test the null hypothesis that all the coefficients are equal to zero against the alternative hypothesis that at least one of the coefficients is not equal to zero. From the findings in Table 5 above, the F-statistic = 0.044 has a *p* value of 0.039, which is < .05. The decision is to reject the null hypothesis that all the coefficients are equal to zero and instead accept the alternative hypothesis that at least one of the coefficients is not equal to zero. The conclusion is that at 0.05 level of significance the ANOVA test indicated that in this model the independent variable namely, price differentiation strategy is important in predicting of performance of selected edible oils manufacturing firms in Kenya as indicated by significance value = 0.039 which is less than 0.05 level of significance ($p = 0.039 < 0.05$). The conclusion based on such findings is that the model is a good fit; hence, the need to establish the coefficients alongside their significance as illustrated in the following table 6.

**TABLE 6: Coefficients of the Regression between Price Differentiation and Performance**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1.486 | .250 | | .256 | .004 |
| | Price Differentiation Strategy | .143 | .069 | .074 | .210 | .039 |

a. Dependent Variable: performance

*Source: Research data (2022)*

From Table 6 above, the *p* value of the coefficient to price differentiation strategy is 0.039 < 0.05. In this case, the decision is to reject the null hypothesis that price differentiation strategy has no significant effect on performance of selected edible oils manufacturing firms in Kenya. This leads to accepting the alternative hypothesis that price differentiation strategy has a significant effect on performance of selected edible oils manufacturing firms in Kenya. Based on such findings, the study concludes that price differentiation strategy has a significant influence on performance of selected edible oils manufacturing firms in Kenya (t-statistic=.210, p-value = 0.039 < 0.05).

Letting Y be performance and $X_1$ be price differentiation strategy, using the regression coefficients in Table 6, we have:

$$Y = \beta_0 + \beta_1 X_1$$

$$Y = 1.486 + 0.143 * X_1$$

Looking at the coefficient to price differentiation strategy, which is positive 0.143, the study further concludes that price differentiation positively affects the performance of selected edible oils manufacturing firms in Kenya. Thus, for every unit increase in price differentiation strategy there was a corresponding increase in performance of selected edible oils manufacturing firms in Kenya by 0.143. It should be noted that since a one unit increase in price differentiation causes a less than 1 unit in performance, the relationship could be considered weak.

## V. Conclusion

The findings from the study indicated a statistically significant relationship between price differentiation and performance of the selected edible oils manufacturing firms in Kenya. Responses obtained from the participants had indicated that indeed there seemed to be some positive performances among the firms that were as a result of pricing differentiation as a strategy for improving the firm's performance. Even though the price differentiation strategies differed based on the type of products, it was established that the selected edible oil manufacturing firms in Kenya are involved in price differentiation strategy as a way of improving on the firm's performance and that price differentiation strategies affected the performance of the various products and firms positively. In testing the hypothesis that price differentiation strategy influences the performance of the selected edible oils manufacturing firms, regression analysis was preferred to other statistical methods. According to the regression results, price differentiation strategy had a beta = .143 with p value = .039, which means that it was statistically significant at 5% significance level. The study rejected the null hypothesis and accepted the alternative hypothesis implying that price differentiation strategy influences the performance of the selected edible oils manufacturing firms in Kenya.

The findings of the study further indicated that price differentiation strategies had been applies more no edible oils compared to personal care and home care products while at the same time, these strategies positively affected the performance of personal care and home care products more compared to edible oils. This study therefore recommends that edible oils manufacturing firms should apply more of the price differentiation strategies to the personal care and home care products as compared to the edible oils in order to improve the performance of these products and the firm's performance at large. The study further recommends that the firms should use all the four price differentiation strategies to differentiate their products in order to improve their performance in terms of sales volume, market share and profits but at the same time, firms should be informed by the type of product whenever they are formulating the price differentiation strategies. This has to be jointly done by the various brand managers.

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