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An Examination of how Pricing Strategy Affects Performance of Oil Marketing Companies in Kenya

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Abstract

Pricing continue to remain popular as a critical aspect that determine performance of firms across the globe. However, the extent of influence on performance is contingent upon the level of price sensitivity of a product under consideration. The oil marketing companies in Kenya are facing challenges such as reduced profit margins, inadequate infrastructure, increased competition with entrance of small independent dealers, price caps and lowering quality standards and these as a results forces the big oil marketers out of the continent for they shift the attention to productive activities and lucrative exploration. Performance in relation to the aforementioned aspects can be investigated from the viewpoint of competitive strategies such as positioning strategies, differentiation strategy, focus strategy and pricing strategy. This study sought to investigate the effect of pricing strategy on performance of oil marketing companies in Kenya. Descriptive research design was used in this study. The five main oil marketers in Kenya were the target population. The companies were selected since they have the highest market share. The study used qualitative and quantitative techniques in analysing the data. Statistical Package for Social Science (SPSS) software were used to generate descriptive and inferential statistics which were interpreted using mean, standard deviation, percentages, frequencies and coefficients. The study revealed that there is a statistically significant relationship between pricing strategy and performance of oil marketing companies in Kenya ($p=0.02$; $p<0.05$). It was recommended that oil companies should frequently analyse their cost structures to ensure that they work towards reducing their operational costs by putting in place effective cost structures.

Keywords: *Pricing, Strategy, Marketing, oil, Performance, Kenya*

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1.1 Background of the Study

Performance of firms is a crucial aspect of consideration by the management teams of companies in globally. It entails the results of the organization as measured by the output intended (objectives and goals) in regard to its profits. According to Johnson, Christensen and Kagermann (2008), the performance of organization entails a multiple of tasks that assist in establishing the objectives of the organization and monitoring the progress of achieve the target. To accomplish the goals, organizations must use resources effectively and efficiently. However, for any successful business, functions of the business be accomplished and defined. It is vital for organization to strategize the designed around the skills that would improve the organization performance. Porter (1980) argued that performance can be achieved in a competitive industry through the pursuit of a competitive strategies, which he defines as the development of an overall pricing strategy, positioning strategy, differentiation strategy, and focus approach to industry competition. If a firm does not pursue one of these strategy types, it will be stuck-in-the-middle and will experience lower performance when compared to firms that pursue a competitive strategy (Porter, 1980). The greatest proportion of firm performance is reliant on price because it directly affects customers' purchasing power and the overall consumer behaviour process (Le & Phan, 2017). Thus, oil marketing companies continue to adopt a multiplicity of competitive strategies and particularly pricing with the aim of realising a performance advantage over competitors that pursue other generic strategy type or those that are stuck in the middle.

The oil markets are in the state of questionable balance (Ozcelik, 2010). One side of the fulcrum lies the global oil supply which is a distribution of several regions in the world which majority of component countries (under which lay huge reserves and produce much of the world's supply of crude) are current facing vital political turmoil, or are trending nationalism and are attempting to maintain greater control over their local resources (energy). The other side lies the demand market which is continuously facing uncertainties in which the major countries are experiencing constant price changes (Christensen, 2006). Forecasting oscillation in the balance between demand and supply and impact of prices is continuing to be a difficult task; however, when the balance is continuously affected and disturbed by factors outside the traditional demand and supply curve when predicting the movement of prices becomes more than a gamble.

The common objectives which shape performance in many businesses include profit maximization, wealth maximization, sales maximization, welfare of employees and social responsibility objectives. It therefore implies that performance is measured through results volume, profit levels, errors committed, frauds committed and service delivery, and others include return inwards, return outwards and productivity (Pearce, Robinson & Subramanian, 2000). Financial indicators of performance are those which are measured in terms of money profit levels and sales volume, they drive the other parameters of performance, the market LPGs are characterized by customers of and suppliers of products. It's an oligopoly market which has few sellers selling competitive products and many buyers and therefore it should consider those strategies which will not attract retaliation from the competitors. Most of these strategies are those strategies which are operational that is relating to day to day operations of the business (Passemard & Calantone, 2000).

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1.2 Statement of the Problem

Oil marketing companies in Kenya expect to enhance their performance when they adopt competitive strategies especially those related to pricing. Kenya currently has over fifty licensed oil marketing companies, but the top six controls over 60% of the market share. The top five oil companies by market share are Total (K) Ltd –21%, KenolKobil –17.5%, Vivo Energy (Shell)–14.5%, Libya Oil(K) Ltd –8.1% and National Oil Corporation of Kenya (NOC) –5% (Petroleum Institute of East Africa, 2016). However, the Oil industry in Kenya is facing challenges that include reduced profit margins, inadequate infrastructure, increased competition with entrance of small independent dealers, lowering quality standards and official caps in price which are unsettling the marketing big oil firms out of Africa as they change their focus to the more productive activities and official price caps which are forcing big oil marketing firms out of Africa as they shift focus to the more profitable exploration (Ahmad, Nasurdin & Zainal, 2012).

Research conducted in Kenya regarding the strategies adopted by oil marketing companies in Kenya has been scarce. A study by Nyakondo (2013) on factors affecting commercial banks in Kenya in adopting strategic positioning on mobile banking is one of the local studies but did not include strategies adopted by oil marketing companies in Kenya to enhance performance. Kasyoka (2014) studied the utilization of strategies in achieving competitive sustainable advantage in Safaricom limited but these studies did not address strategies adopted by oil marketing companies in Kenya to enhance performance. Gachimu and Njuguna (2017) worked on strategic positioning and commercial bank's performance in Kenya, the study didn't address strategies adopted by oil marketing companies in Kenya to enhance performance as well. The extensive review indicated no research on competitive strategies on oil marketing and majority of the reviewed studies on competitive advantages concentrated on banking industry and none on the petroleum industry which is a very important area of study in Kenya. Based on this gaps therefore, there is need for a study to be conducted on determinants of competitive strategies on financial performance of the oil marketing companies in Kenya.

1.3 Aim of the Study

The aim of this study was to determine how pricing strategy affects performance of oil marketing companies in Kenya.

1.4 Significance

The study is beneficial to the government, management teams of oil marketing companies, and researchers/scholars. The ministry of energy and petroleum will be in a position to come up with strategies necessary to spur growth in domestic savings. The management of oil marketing companies will be equipped with the necessary knowledge and information on business models and business strategies on organizational performance of oil sector in Kenya. This will give them an edge to reach their customers at any time they need to use their service stations hence improving their financial performance. The findings will help the gas and oil companies in gaining competitive advantage over its rivals. The researchers and scholars will access new knowledge on business models and business strategies on organizational performance of oil sector in Kenya.

2.0 Literature Review

2.1 Theoretical Review

2.1.1 Theory of Competitive Advantage

Competitive advantage theory argues that if decision is made based on the competitive advantage everyone is better off whether as an individual, corporate entity, national or local. The theory simply asks for optimal utilization of resources and services and product globalization across the globe as if no borders exists. According to Christensen (2006) it is unfortunate the world we live in is not borderless since there are thick boundaries and politicians that define the nations hence the issues of use of measures of protectionists and job loss due to off shoring is ever rising.

According to Foss& Knudsen (2003) letting workers or employees who are better in a certain tasks do it, is a plus to the whole organization due to the fact that we are letting the individual utilize the competencies, unique capabilities and skills hence saving on time and costs. The author argued that these is not a zero sum game because it creates a win-win situation to everyone involved. The assumption behind this is that capital resources in the world flow freely and if the forces of the market could be allowed to flow freely then that would happen. But these is not the case in the real world because there are forces which are forcing the free flow of capital resources and also prevents the chances of benefiting from gains presented by competitive advantage.

The fundamental assumption of the theory is that there is availability of adequate employment opportunities for those seeking to benefit from competitive advantage leverage to such a level that they can fully utilize their potential. These may help companies move up the value chain if they are constrained due to capacity instead of capability. Similarly, the study assumes that when resources are utilized well they keep accumulating and adding up and vice versa irrespective of socio-cultural differences. It borrows the argument that water will find its level if there are no man made obstructions. According to Michael, Treacy and Fred (1997) the free markets is not necessary in world today but it’s also untrue.

2.1.2 Porter’s Diamond Model

Porter proposed the diamond model in 1998. The model proposes that the firms compete internationally but not nations. The model argues that it is vital for one to understand how firms compete and sustain their competitive advantages in order for one to understand the nation’s role in helping firms maintain their competitive advantages. A nation’s industry consists of a group of companies competing not only amongst themselves, but also as an aggregate against the same industry in other countries. Firms position themselves within an industry through different strategies. In most cases, however, firms in a nation’s industry g after similar strategies which make the industry’s local strategies different from the competing firms internationally. A nation’s industry is competitive relative to other nations’ industries if the aggregate competitive advantage of the industry allows the nation to continuously make opportunities to improved profits than the competing industries and firms in the other nations (Porter, 1996).

Porter’s theory on competitive advantage of nations provides a framework to evaluate how countries gain competitive advantage in the market place globally based on specifics fund within the industries in different nations. It explains how country’s businesses gain competitive advantages. Porter believed that, “groups or clusters of interconnected firms, suppliers, related industries, and institutions that arise in particular locations, have become a new way for companies, and governments to think about economies, assess the competitive advantage of locations, and set public policy" (Porter, 1990).

The main four determinants of porter's model are demand conditions, factor conditions, supporting and related industries, structure, rivalry and firm strategy. Demand conditions are the quality of the home demand for a product or service in an industry. Factor conditions are the basic inputs of production necessary to compete in an industry. Examples of factor conditions are capital resources, skilled labour and infrastructure. Related and supporting industries are defined by whether a nation has the supplier and related industries that are internationally competitive. The firm strategy is the fourth determinant which entails the structure, and rivalry which is defined by the conditions within a country that administer how businesses are created, managed and organized along with the type of local competition. Porter argued that these determinants as a structure and individually provide the environment for the nations to gain competitive advantage. Porter presented the four determinants in a diamond pattern (Porter, 1990).

2.2 Empirical Review

Products with the same brand names when sold in different countries it is difficult to sale at different prices. This indicates that most probably in the marketing mix, the price element is the most difficult to make it standard because of the desire of the firm to recover the costs in full in the long run. While at the same time mandatory adaption need to be taken care of in the local market place such as the legislation, government regulations, and customization of international pricing strategy. These should be solved thoroughly though proper analysis of the differences between home and foreign products and services. International market success and maximization of revenue can be achieved through adaptation of prices including premium pricing when the market conditions are favourable that is when the competition is weak and demand is strong. The firms can also utilize competitive pricing when the conditions of the markets are unfavourable that is when competition is intense and demand is weak (Theodosiou & Katsikeas, 2001). There could be another strategy of uniform pricing across all markets as a measure to defend against the gray import markets and intermediaries who are unauthorized and are out of the business control (Cavusgil & Zao, 1994).

According to Sousa, Lengler, Martinez-Lopez (2013) the price adaptation degree is sometimes positively related to the export performance of the firm. This hypothesis implies that export Performance of export will always increase due to adaptation of prices. The results regarding the effect of price adaptation and export performance standardization (Tan & Sousa, 2011) presented in the recent literature review seems to be inconsistent and contradictory.

Raymond and Tanner (2001) found that decisions on pricing are paramount and significant to the local firms to be successful in the foreign market. Myers, Cavusgil, and Diamantopoulos (2002) affirmed that in todays' managers in the business environment need to be careful when establishing and setting export market prices due to the continuing increase in the global environment competitiveness, regulations by governments which are complex and gray market considerations.

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2.3 Conceptual Framework

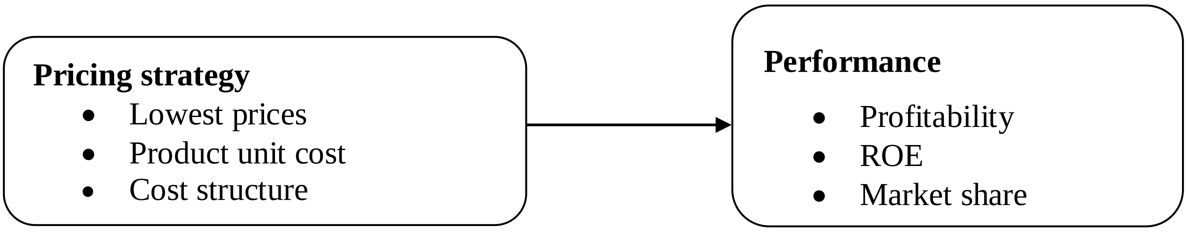

Figure 1: Conceptual Framework

(Source: Author, 2018)

3.0 Methodology

Descriptive research design was adopted. A descriptive research design is concerned with analyzing and assessing who, what, how, when and where aspects of the study. The design was found appropriate for it determines the relationships and describes how factors in the study support the matters under investigation.

The population of interest in the study consisted of oil marketing companies in Kenya with retail stations. According to Kothari (2013), population refers to an entire group of individuals/objects or elements having common characteristics which is observable. It's also described as an aggregate of all that follows to a given description. The study focused on the five top oil marketing companies in Kenya based on the market share (Petroleum Institute of East Africa, 2016). The targeted firms are Kenolkobil Kenya, Total Kenya, Vivo (Shell Energy), National oil and Libya Oil in Kenya.

The target population of the study were 360 staff members of the top five oil marketing companies in Kenya in terms of market share who comprised of 106 operations team, 93 business development team, 84 sales team and 77 administration team as shown in table 3.1 below. The study was conducted in Nairobi County hence the staff from this region were used for the purpose of the study.

Table 1: Target Population

Population Category	Target Population	Percentage %
Operations team	106	32.7
Business Development team	93	20.9
Sales team	84	21.81
Administration team	77	24.54
TOTAL	**360**	**100**

(Source: Petroleum Institute of East Africa, 2020)

Participant selection was carried out using stratified random sampling technique. The stratified random sampling procedure was used as it ensures all elements in the groups of the population are selected and represented equally and have equal chances while they remain representative of the whole population and that no group is overloaded, or left out. This sampling technique enables the generalization of the whole population with a statistical determinable margin of error (Mugenda & Mugenda 2003). Stratified sampling is applicable if a population from which a drawn sample does not constitute a homogenous group (Orodho, 2003).

A sample was selected using the above technique. A sample is a small proportion of the target population selected using some procedures systematic. According to Kothari, Sibbald and Wathen (2014), at least 50% above of the total population is adequate sample size for descriptive studies. The selected sample size was a representative of the staff members of the top five oil marketing companies in Kenya. The Yamane Formula derived in 1967 was used to determine the sample.

$$n = \frac{N}{1+N(e)^2}$$

The variables; n = the size of the sample N = Population target

e =the precision levels (95% confidence level) = 0.05

Therefore, our sample size was derived as follows;

$$n = \frac{360}{1+360(0.05)^2}$$

$$= \frac{360}{1+360(0.0025)}$$

$$= 190$$

This was translated to 52% of the target population.

Table 2: Sample Size

Population Category	Sample Size	Percentage (52%)
Operations	106	56
Business Development	93	49
Sales team	84	44
Administration	77	41
TOTAL	**360**	**190**

The primary data was acquired through personally-administered questionnaire. The structured questionnaire was used for collecting competitive strategies and performance of Oil marketing companies in Kenya. The questionnaires consisted of open ended questions for specific responses on qualitative analysis and closed ended questions for quantitative analysis. Prior to the actual study, a pilot study was carried out. A total of 10 respondents were chosen from the interested population to take part in the pilot phase to test the validity, reliability and also help reduce ill documentation of facts and findings. Participants were recruited in the selected (5) petroleum companies. Selection procedures was convenience based but care was taken in ensuring that various dimension that are relevant in the study are represented well such as professional experience, gender and age. The pilot study findings were included in the report but were used to test the instruments validity.

Data was entered into SPSS software and subjected to statistical analysis using multiple regression analysis. A regression equation was created in the form:

$Y = \beta_0 + \beta_1 X_1 + \varepsilon$……………………………………………………………………………..(i)

Where:

Y is dependent variable (organizational performance), β_0 = Constant Term, X_1= pricing strategy, and ε = (Extraneous) Error term explaining the variability of other factors not accounted for.

Reliability was determined using Cronbach's Alpha (a>0.7) while validity was based on content of the questionnaire items as guided by the expert. Before research activities were convened, ethical consideration were adhered to and the researcher got a research permit. Participants were issued with a consent letter seeking their informed permission to participate in the study and received clarification before signing. The researcher then sought a permit to carry out the empirical research from the National Council for Science, Technology and Innovation (NACOSTI). The researcher informed all respondents of the purpose of the research and allowed them to participate voluntarily. The researcher also avoided questions that were controversial. Respondents were assured of anonymity and confidentiality of the information. The researcher took precautions against plagiarism by acknowledging other authors works and ensured honest representation of information.

4.0 Findings

4.1 Response rate and Reliability

The sample of the study comprised of 190 respondents. The research instruments were administered to the respondents who later on returned duly filled instruments. Out of 190 questionnaires that were administered, 163 were duly filled and returned. This was a response rate of 85.7%. According to Mugenda and Mugenda (2003), a 50% response rate is adequate, 60% good and above 70% rated very good. This also concurs with Kothari (2008) assertion that a response rate of 50% is adequate, while a response rate greater than 70% is very good.

Reliability is the extent to which a research instrument yields finding that are consistent each time it is administered to same subjects (Mugenda, 2008). Cronbach alpha is the basic formula for determining the reliability based on internal consistency. The standard minimum value of alpha of 0.7 is recommended (Amin, 2005) as the minimum level for item loadings. Pricing strategy scored an alpha value of 0.8843 (α>0.7).

4.2 Demographic Characteristics

In order to achieve the main purpose of this study, the researcher found it useful to find out the demographic information of the respondents. The demographic information of the respondents included age, level of education, and work experience. Age analysis was carried out and results presented using figure 2 below.

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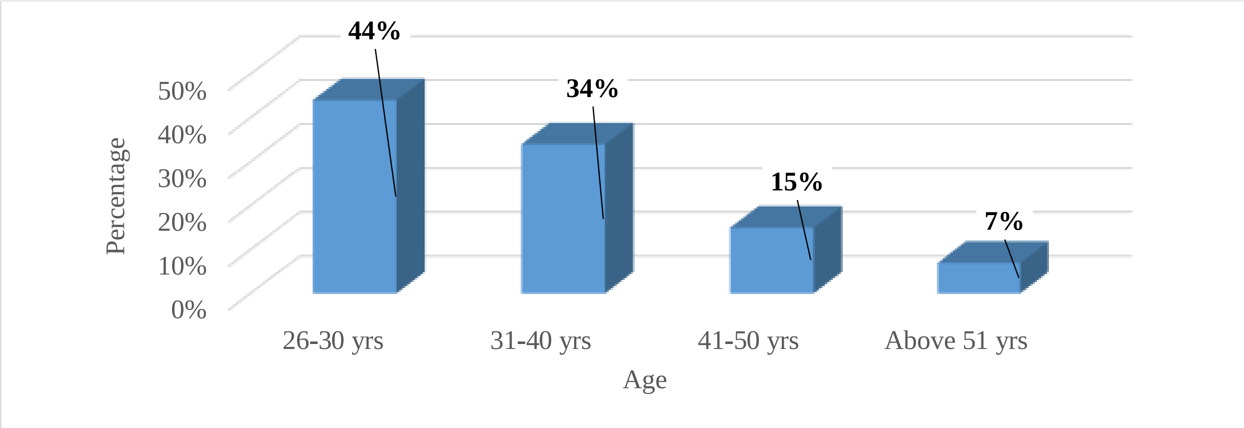

Figure 2: Respondents Distribution by Age

Source: Field data, (2018)

Jenster and Hussey (2011) in their study of determining strategic capability in organizations associated age with employee efficiency in service delivery where they indicated that there is a positive correlation between age and employee performance. He argued the older an employee was the higher the performance up to a certain age where performance would start declining. The finding therefore implies that the respondents were old enough to provide valuable responses that pertain to competitive strategies on financial performance of the oil marketing companies in Kenya.

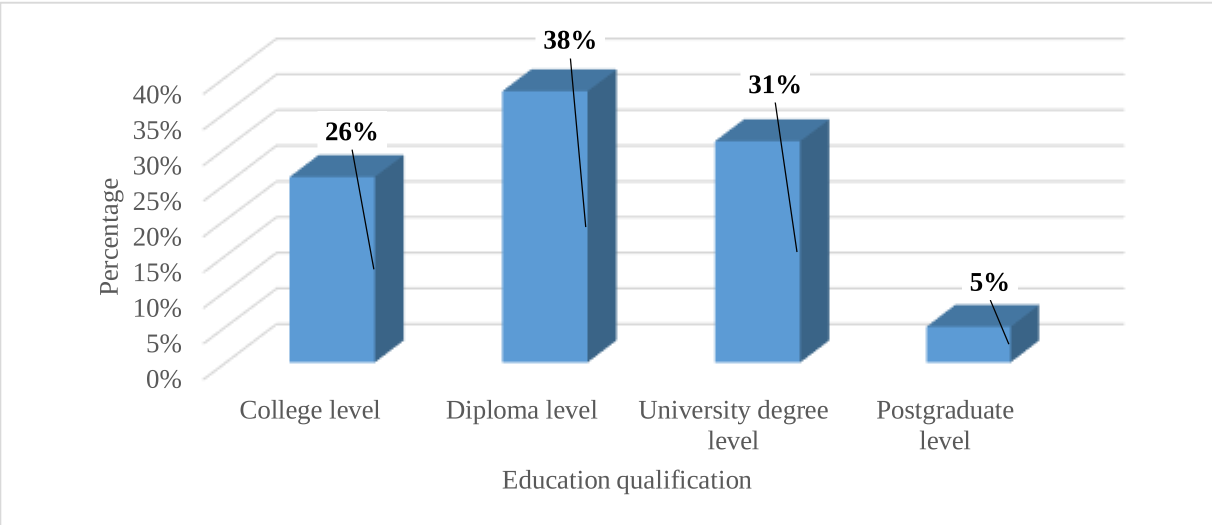

Figure 3: Respondents Level of Education

Source: Field data (2018)

From the findings, on level of education majority of the respondents had attained academic qualification commensurate with their job designation and it can therefore be inferred that

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academic qualification influence competitive strategies on financial performance of the oil marketing companies in Kenya as shown in figure 3 above.

The findings of the study concur with Ngulube and Tafor (2006) who observed that each organization has its own management organization structure with a matching head count budget to support the business and the persons assigned various duties should possess requisite professional and academic qualifications.

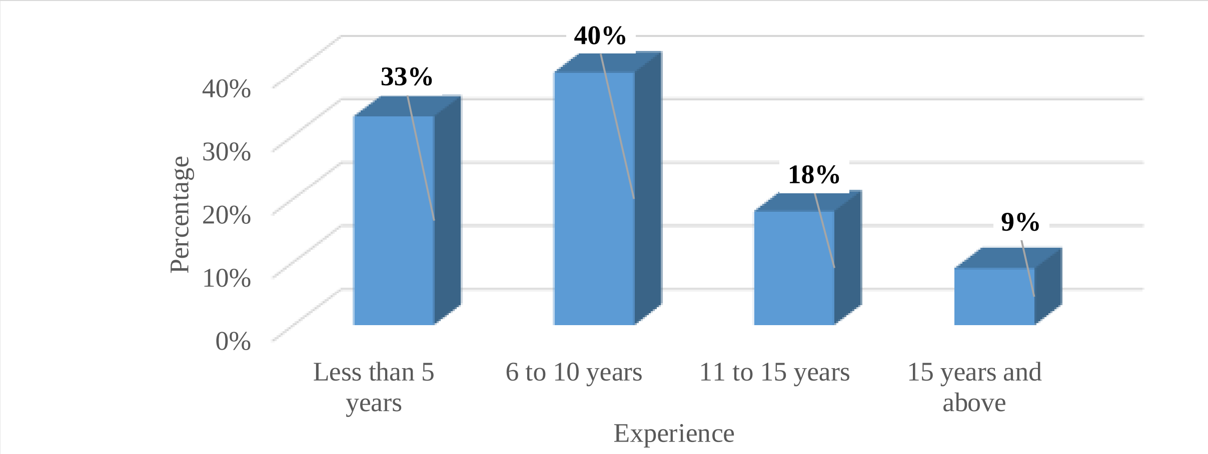

Figure 4: Respondents Work Experience

Source: Field data (2018)

From the findings, majority of the respondents were experienced and hence can be highly informative on issues that relate competitive strategies on financial performance of the oil marketing companies in Kenya given that majority of the respondents had substantial work experience, it is therefore expected that the performance of the of oil marketing companies in Kenya would be effective as shown in figure 4 above.

The findings are in agreement with the study done by Maria (2013) on relationship between management strategies and organization performance the study found that management depends highly on the skills of the managers the findings indicated that the manager's skills can be acquired through experience.

4.3 Descriptive Analysis

The study sought to find out the level of agreement with statements regarding the effect of pricing strategy on financial performance of oil Marketing Companies in Kenya. From the findings respondents agreed to the statement that; oil marketing companies in Kenya offers price sensitive solutions towards our institution/company's specific needs; that oil marketing companies in Kenya endeavours to produce at low cost hence fair prices but high quality products; that by serving segmented markets oil marketing companies in Kenya minimizes their cost of product as prices match the different segments; and that oil marketing companies in Kenya attracts more customers using competitive prices as indicated by a mean of 3.93, 4.37, 3.89 and 3.75 respectively. The findings shown by standard deviations meant that there were variations in the responses as indicated by aggregate Score of 1.09 (Standard deviation ≥ 1).

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Table 3: Level of agreement with statements regarding the effect of pricing strategy

	Mean	Stdev
Oil marketing companies in Kenya offers price sensitive solutions towards our institution/company's specific needs.	3.93	.78
Oil marketing companies in Kenya endeavors to produce at low cost hence fair prices but high quality products	4.37	.63
By serving segmented markets Oil marketing companies in Kenya minimizes their cost of product as prices match the different segments	3.89	.89
Oil marketing companies in Kenya attracts more customers using competitive prices	3.75	.84
Aggregate Score	**3.98**	**1.09**

Source: Field data (2018)

This collates with literature review by Levitt (1983) who found that price is probably the marketing mix element that is most difficult to standardize because of the firm's long-term need to recover full costs. While mandatory adaptation may be needed to comply with local marketplace realities such as government regulations and legislation.

4.4 Inferential Analysis

A regression analysis was carried out and used to generate the table of coefficients shown below.

Table 4: Multiple Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.674	.984		8.110	.000
	Pricing strategy	.376	.165	.025	2.279	.002

Source: Field data, (2018)

The regression equation (**$Y = \beta_0 + \beta_1 X_1$**) was interpreted to mean

$Y = 5.674 + 0.332X_1 + e$

Y= Financial performance of Oil Marketing Companies in Kenya

X_1 is pricing strategy.
e is the error term.

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Based on table 4 above, a unit increase in pricing strategy leads to a 0.376 increase in organisational performance. The relationship is positive, but weak. The relationship between pricing strategy and performance is statistically significant ($p=0.02$; $p<0.05$). Hence, there is a statistically significant relationship between pricing strategy and performance of oil marketing companies in Kenya.

5.0 Conclusions

The study endeavoured to investigate the effect of pricing strategy on performance of oil marketing companies in Kenya. The study found that oil marketing companies in Kenya offers price sensitive solutions towards our institution/company's specific needs; that oil marketing companies in Kenya endeavours to produce at low cost hence fair prices but high quality products; that by serving segmented markets oil marketing companies in Kenya minimizes their cost of product as prices match the different segments; and that oil marketing companies in Kenya attracts more customers using competitive prices. This agrees with literature review by Levitt (1983) who found that price is probably the marketing mix element that is most difficult to standardize because of the firm's long-term need to recover full costs. While mandatory adaptation may be needed to comply with local marketplace realities such as government regulations and legislation.

The study concludes that pricing strategy significantly influences organization performance, oil companies had embraced technology to minimize cost. Oil Companies had introduced cost cutting measures that enhanced efficiency in the organization and the oil companies emphasized efficiency in operations. The researcher concludes that pricing strategies of economies of scale was attained and price charged was lower than other companies. Oil Companies advertising costs were on the decrease.

Since pricing strategy had a significant effect on organizational performance, it is recommended that the oil companies should frequently analyse their cost structures to ensure that they work towards reducing their operational costs by putting in place effective cost structures. The marketing costs were relatively high in oil companies. The study recommends the oil companies should be realigning and streamlining such costs and others, so as to increase profitability and general organizational performance.

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