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ABSTRACT

The main purpose of the study was to establish the effect of pricing strategies on competitive advantage among firms in cement industry in Kenya. The study was informed by Capability-Based theory. The study utilized an explanatory method and employed quantitative approaches. The target population encompassed a total 553 employees and 5 departmental heads from 5 cement manufacturing firms (Commercial Manager, Finance manager, Safety Health and environmental Manager, Manufacturing Manager. The study used stratified and simple random sampling to select a sample size of 226 employees who were selected as an adequate representation. The study used questionnaires to collect primary data. Quantitative data was analyzed using descriptive statistical techniques which included frequencies, means, and standard deviations. Inferential statistics such as Pearson Product Moment correlations were used to establish the relationships between the variables. Multiple regressions were used to establish the cause effect relationship. The findings showed that value-based pricing strategy had a positive and significant effect on competitive advantage of selected manufacturing firms in Kenya, $\beta_1 = 0.214$, $p = 0.001$. In addition, competition-based pricing strategy had a positive and significant effect on competitive advantage, $\beta_2 = 0.302$, $p < 0.001$. The study was of great importance to cement companies in Kenya as it provided insight into best pricing strategy that could enhance competitive advantage and also challenges encountered and how such strategies were affecting organizational performance. The study helped the government and its policy making agencies as it served as a guide to policy makers on existing pricing strategy among research agencies and difficulties confronted in executing the pricing strategy.

Keywords; *Competitive Advantage, Manufacturing, Firms, Pricing Strategy, Competition-Based, Value-Based*

INTRODUCTION

Organizations worldwide have various ways of enhancing their competitive advantage though this varies from one organization to another depending on the actual. Competitiveness is important for a firm because it increases performance. Competitiveness is gained when organizations perform better than their competitors in the same industry. In order for organizations to outwit competition and succeed in the market place, they must possess some kind of advantages compared to their rivals. Competitiveness is adopted as a management or economics idea that is superior to the traditional economic indicators such as profitability, productivity or market share, which are seen as being insufficient to enable continuous improvement of performance (Lu, 2006). Competitive advantage is gained when a firm acquires attributes that allow it to perform at a higher level than others in the same industry. Companies can obtain a competitive advantage by implementing value-creating strategies, not simultaneously being implemented by any current competitor. However, as the notion of competitiveness itself arises many doubts regarding determinants.

The resource based view postulates the importance of resources and capabilities to obtain competitive advantages as an end to a greater performance. To garner competitive advantage benefits, he further suggests two approaches to create advantage over competitors which include cost leadership and pricing which embraces the opportunity to add value for customer and give them reason to buy.

Globally, Price is one of the most flexible elements of the marketing mix, which interferes directly and in a short term over the profitability and cost effectiveness of a company (Simon, Bilstein, & Luby, 2008). Despite the importance a price has on the performance of businesses, it seems that such element has not received the proper attention by many academics and marketing professionals (Avlonitis & Indounas, 2006). Strategic pricing requires a stronger relationship between marketing and the other sectors of a company. In order to enhance companies' economic and financial performance, the pricing policies should be defined by their internal capacities and on the basic systematical understanding of needs and wishes of their customers, in addition to market conditions such as, economic conditions and degree of competition (Besanko, Dranove, Shanley, & Schaefer, 2012; De Toni & Mazzon, 2013b). In this context, this study's objective is to propose and test a theoretical model that indicates the impacts of pricing policies on company's profit. On this regard, the theoretical assumptions consider as pricing policies the definitions that comprise the pricing strategies and the price levels used by companies in their respective markets. In this study, the considered pricing strategies are based on Nagle and Holden (2003) studies, namely value-based, competition-based and cost-based pricing strategies; whereas the pricing levels are classified as high and low prices (Urdan & Osaku, 2005)

The cement manufacturing sector in Kenya is paramount for growth. Nevertheless, the industry is faced with a number of challenges, the main one being the growing threat from international entrants in the already vibrant and very competitive market (Economic Missions, 2006-2007). The industry has been critiqued for not taking into consideration the prospect that the global competition is very high and might weaken emerging Kenyan companies if they are allowed admission to Kenya's market through trade liberalization. By 2008, Kenyan market has been dominated by 3 cement manufacturers with estimated market share of around 65%, this created threat for the new entrant such as Savannah Cement Company in 2012 as with their market share decreasing to around 50%. By 2012, Kenya had a capacity to produce 5.1 million tons of cement annually, however, 3.7 million tons is actually produced, translating to a capacity utilization of 72.5%, compared to the global capacity utilization of 80% in the same year (Joachim, 2008). From the ongoing discussion, the need to understand the challenges affecting performance of the cement industry could not be overstated

It is very crucial to come up with strategies that will deal with the obstacles encountered. Locally, several studies have been conducted in cements industries, for example Seboru (2013) carried a study on effect of environmental challenges on performance of the cement industry in Kenya. The results showed that transformational leadership as practiced by the management; save for individualized support and intellectual stimulation; positively influenced the organizational performance. Kinyua (2007) conducted a study to assess which strategies are used by cement manufacturers in Kenya. The study finding revealed that there have been certain dynamics in the industry that make it easy for other competitors to enter the market. Molonket, Ombuki, Wawire (2014) investigated effects of competition on the profitability of cement manufacturers in Kenya. However, despite above studies addressing issues on performance of Kenyan cement study. There are limited studies on the link between pricing strategy and competitive advantage, hence creating gaps in the existing literature. The key goal of this study was to establish the effects of pricing strategies on competitive advantage. In order to achieve the main objective, this study was guided by the following specific objectives;

- To establish the effect of value-based pricing strategy on competitive advantage of selected cement manufacturing firms in Kenya.
- To determine the effect of competition-based pricing strategy on competitive advantage of selected cement manufacturing firms in Kenya

Theoretical Literature Review

The paper was anchored on the Capability-Based Theory. According to a study by Grant (1991) capabilities is what's done to result into improved market performance while resources is what brings about capabilities. Amit and Shoemaker (1993) came up with the same notion and argued that resources hardly lead to sustained competitive advantages for a firm while on the other hand its capabilities that contribute to this. Haas and Hansen (2005) emphasized how capabilities are crucial and asserted that a firm will gain high market performance depending on how well it uses the capabilities available to it.

According to Amit and Shoemaker (1993) capabilities entail the capacity of a firm to put out into use its assets together with activities that influence the end product. They are mostly determined by the data available and the steps a firm has taken to ensure that it utilizes all available inputs for the benefit of the consumers. Teece *et al*. (1997) contend that dynamic competencies allow a company to put together, analyze and develop strategies to deal with the dynamics of the market. Grant (1996) argues that capability of an organization is its ability to do certain functions that directly affect its capacity in making value by using the resources available. According to Grant (1996) capability has been categorized into cross-functional, broad-functional, activity-related and specific competencies.

Capabilities greatly affect organizational learning for a firm hence affects its overall financial performance (Sirmon *et al*., 2003). How a firm comes up with innovative ideas is very important to gain competitive advantage. Lee *et al*. (2001) analyzed the impact of internal capabilities or competencies and outside relations on organizational performance. The distribution strategy and channel rationalism go hand in hand and they together have a significant impact on the strategy selected by a certain firm for improved market performance (Slater and Olson, 2001). When firms aim to use one of the distribution strategies some external factors may not go well with the success of the said distribution strategies. Aggressive marketing entails coming up with new dynamic products, a good rapport with consumers, huge research carried out in the market and a lot of advertising activities to ensure that the consumers are aware of the existing products (Slater and Olson, 2001).

The directors should have vast knowledge of what the market entails by employing huge investments in research and development. Research has argued that aggressive marketing by the use of power dominance to achieve a place in the market but critics have argued that using a lot of power and force could bring about other changes in market which don't favor the firm in place or which have negative consequences (Hingley, 2005). The theory relates to the study by explaining various capabilities of the firm that when firms aim to use one of the distribution strategies some external factors may not go well with the success of the said distribution strategies.

Literature Review

Value Based Pricing Strategy and on competitive advantage

Value establishment can be defined as the offer of benefits of equal or superior value to the sacrifices incurred by the purchaser for a product and/or service. Within the possible sacrifices, there is the financial sacrifice, which is translated by the price to be charged or actually paid by the buyer (Juran & De Feo, 2010). Besides, the process of value settlement includes the transformation of the results from the organizational strategy on programs aimed to extract and deliver value to the company's customers. In addition, it identifies the benefits and costs (or sacrifices) of products and experiences resulting from the relationship between the customers and the organization. The superior value proposal represents an offer for the customers which increases the value or solves a problem in a better way than those offered by similar competitors (Payne & Frow, 2014).

Perceived value-based pricing is a pricing practice in which the managers take decisions based on the perception of benefits from the item being offered to the customer and how these benefits are perceived and weighted by the customers in relationship to the price they pay (Ingenbleek, Frambach, & Verhallen, 2010). Therefore, as a cultural orientation of businesses, value-based pricing is derived from a set of routine philosophies and organizational strategies that a specific company could use in order to focus on customer satisfaction and, as a result, increases their profitability (Cressman, 2012). Because of this, Liozu (2013) highlights that using prices based on customer's perception of value is a more modern pricing approach, although sometimes it incites a profound organizational change on the established organizational structure, the current corporate structure or the pre-existing processes and systems.

In this sense, Ingenbleek, Debruyne, Frambach, and Verhallen (2003) affirm that perceived value-based pricing, along with pricing practices that refer to the use of information about costs and competitors' prices, are intimately related to the product's performance, the service and the business as a whole. These authors demonstrated that the usage of value-based pricing is a key pricing practice for obtaining larger returns and for creating some kind of comparative advantage for the companies offers. This is demonstrated in a study conducted by Füreder, Maier, and Yaramova (2014), on medium-sized companies in Austria which used with higher frequency the perceived value-based pricing strategy. These authors identified that these companies had larger contribution margins, between 11–30%, against 0–10% of those companies that did not use this same strategy. Thus, the approach of a value-based pricing strategy is considered superior to other approaches in relationship to the results obtained by other companies (Hinterhuber, 2004; Ingenbleek et al., 2003; Liozu & Hinterhuber, 2013)

In a study developed by Milan, De Toni, Larentis, and Gava (2013) about pricing and expenditure strategies, the authors identified that the factor that mostly influences an organization's performance is related to the achievement of their objectives by the development of new products. In other words, businesses that achieved their sales, market participation and profit margins objectives exhibited a better organizational performance. Therefore, it is identified that the success of many organizations is linked to the development of new products (DNP) that add customer value (Cooper, 2000). It is observed that a company which adopts a constant innovative strategy, mainly on the products released on the market, can add more value to the customer and, consequently, obtain better profitability (Boehe et al., 2009; De Toni, Milan, and Reginato, 2011).

Competition-Based Pricing and on competitive advantage

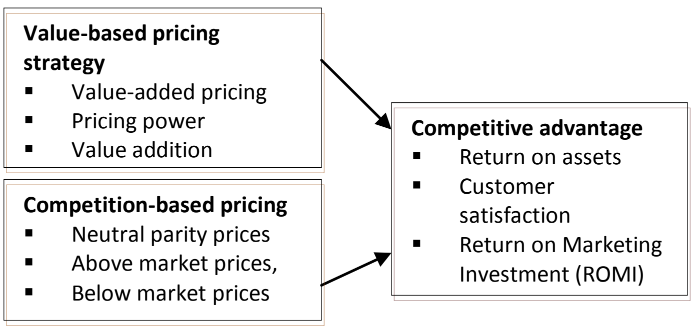
Competition-based pricing uses as key information the competitors' price levels, as well as behavior expectations, observed in real competitors and/or potential primary sources to determine adequate pricing levels to be practiced by the company (Liozu & Hinterhuber, 2012). The main advantage of this approach is considering the actual pricing situation of the competitors, and its main disadvantage is that the demand related aspects are not considered. Furthermore, a strong competitive focus among the competitors can increase the risk of starting a price war among competitors in the market (Heil & Helsen, 2001). Liozu, Boland, Hinterhuber, and Perelli (2011) conducted a research mapping the pricing processes of companies which based their prices on competitors and they found that managers use their knowledge and experiences to define prices, as well as models of costs, contribution margin goals, and well-structured profit goals.

In addition, these companies were strongly considering the prices of their main competitors while adding a price reward by always sharing the decision based on the manager's intuition, which is not a scientific method to define prices. In this sense, competition-based pricing strategies are very dangerous because the company does not effectively have clear cost or profit information from its competitor who, in some instances, may be working with very low margins (Nagle & Holden, 2003).In some situations, the competitor developed a more efficient production process, thus the costs would not be equivalent, even because of the scale gains. Therefore, by following this strategy, the company is at risk of operating with minimal margins or even having negative profits.

Pricing reduction strategies based on competition, in which companies may seek to increase the volume of sales, can also encourage the competitors to lower their prices while contributing to a predatory competition and a price war, resulting in reduced profit margins and smaller companies' profitability (Diamantopoulos, 2005). Besides, in highly competitive markets, the price information from competitors becomes obsolete very quickly (Ingenbleek et al., 2010). In this case, it is necessary to manage the capacity that competitors have to react to the pricing strategy defined by the company, while noting that in competitive markets this can increase the risk of starting a price war and decreasing profit margins (Simon et al., 2008).

Conceptual model

Pricing strategies



Independent Variables **Dependent Variable**

Figure 1: Conceptual Framework

METHODOLOGY

The study type utilized an explanatory method and employed quantitative approaches. The target population encompassed 553 employees and 5 departmental heads who included Commercial Manager, Manufacturing Manager, Finance Manager, Safety Health and Environment and Audit managers as part of the employees from five manufacturing firms in Kenya. The sample size was based on the Krejcie & Morgan (1970) methodology as used by Ghasemizad *et al.* (2012). Based on the formula, from a target population of 553, sample size of 226 employees were selected as an adequate representation. To select the sample, stratified random sampling approach was used. The sample was stratified depending on the company name. The study used questionnaires to collect primary data. Multiple regression analysis was used to establish the cause-effect relationships. Data was presented using tables and charts.

$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \varepsilon$ .... (1)

Y- This is competitive advantage,

α -This is the constant of an equation.,

X_1 = value based strategy,

X_2 = Competition-Based Pricing,

β_1, β_2– These were the coefficient of regression for independent variables.,

e– This is random error term.

The study significant effect was tested using multiple regression analysis where the significant level is set at 0.05.

FINDINGS

The sample characteristics discussed were the age of the firm and the number of employees. Most of the firms findings were in operation for 20 to 30 years,. Cumulatively, over 72% of the firms have been in operation for 20 to 40 years. The findings also show that 79 (38.2%) of the cement manufacturing firms have between 51 to 100 employees, 54 (26.1%) have between 1 to 50 employees, 47 (22.7%) have between 101 to 150 employees while 27 (13%) have between 151 to 200 employees. Cumulatively, 87% of the cement manufacturing firms have between 1 and 150 employees. This means that the cement manufacturing industry is highly labor intensive in order to meet the demand for the product and with high labor, there is high financial input.

Descriptive statistics

Value Based Strategy

Thus, the study sought to establish the perspective of the respondents regarding value based pricing strategy and how this can have an impact on the level of competitiveness in the cement manufacturing industry. The findings in Table 1 showed that respondents agreed that the value of their product determines their prices where value in this case were directly related to the demand for the product, mean = 3.48 (SD = 1.140). This meant that the more demand for the product, the more the firm was able to review its pricing in order to remain competitive. However, the findings also showed that for majority of the firms, their pricing was largely value-based (mean = 3.86, SD = 0.966). The findings also showed that firms set their price in relation an offering's value, (mean = 3.83, SD = 0.924). Furthermore, the findings showed that firms estimated the value of products and that of their competitors before setting prices (mean = 3.29, SD = 1.021) and identify their customer's second-best option although (mean = 3.99, SD = 0.932).

Table 1: Value based strategy

	Mean	Std. Deviation
Value of our product determine our prices	3.48	1.140
We set our price in relation to an offering's value	3.83	0.924
Our Pricing is largely value-based	3.86	0.966
We estimate the value of products and that of our competitors before setting prices	3.29	1.021
We set price to capture the majority of what your customers are willing to pay	3.55	0.993
We identify your customer's second-best option	3.99	0.932
Value based	**3.665**	**0.658**

Competition-Based Pricing

The findings in Table 2 revealed that firms undercut their prices offered by their competitors (mean = 4.01 (SD = 0.930). Furthermore, the findings also showed that firms set their prices based on their competitor's prices (mean = 3.91, SD = 0.953) and offer to match advertised competitor prices (mean = 3.65, SD = 1.060). In addition, when setting their prices, firms considered the actual pricing situation of the competitors (mean = 3.69, SD = 0.801). However, the findings also showed that firms set their prices relative to what competitors were charging (mean = 3.48 (SD = 0.994) The overall mean response for competition-based pricing was 3.69 (SD = 0.688) that indicated that majority of the firms used competition-based strategy in the pricing of their products.

Table 2: Competition-Based Pricing

	Mean	Std. Deviation
We undercut our prices offered by competitors	4.01	0.930
We set our prices based on our competitors' prices	3.91	0.953
We offer to match advertised competitor prices	3.65	1.060
When setting our prices we consider the actual pricing situation of the competitors	3.69	0.801

We set our prices relative to what competitors are charging	3.48	0.994
Competition Based Pricing	3.696	0.688

Competitive Advantage

The findings were presented in Table 3.The findings showed that company had preserved a high market share in the past two years (mean = 3.81, SD= 0.880) Furthermore, the findings showed that firms had experienced high growth sales in the past two years, mean = 3.68, SD = 0.948). The findings also showed that firms had been able to retain most of their customers in the past two years respectively (mean = 3.76, SD = 0.788, increased their market size in new markets in relation to their competitor (mean = 3.61 (SD = 0.846), successfully created positive reputation (3.97 (SD = 0.975). Finally, the findings showed that firms increased perception of customer satisfaction respectively (mean = 3.7, SD = 1.048) The overall mean response was 3.76 (SD = 0.667) indicating that the level of competitive advantage had increased for majority of the firms given their use of the various pricing strategies.

Table 3: Competitive Advantage

	Mean	Std. Deviation
The company has preserved a high market share in the past two years	3.81	0.880
We have experienced high growth sales in the past two years	3.68	0.948
We have been able to retain most of our customers in the past two years	3.76	0.788
We have increased our market size in new markets in relation to our competitors	3.61	0.846
We have Successfully created positive reputation	3.97	0.975
We increased perception of customer satisfaction	3.73	1.048
Competitive Advantage	3.761	0.66797

Correlation and regression analysis

The findings in Table 4 on correlation showed that value based pricing had a positive and significant relationship with competitive advantage, ρ = 0.706, $p < 0.001$ indicating that there was 70.6% chance that with increased use of value-based pricing strategy, the level of competitive advantage would increase. Furthermore, the findings showed that competition-based pricing had a positive and significant relationship with competitive advantage of the cement firm, ρ = 0.749, $p < 0.001$ meaning that with increased use of competition-based pricing, there was 74.9% chance that the level of competitive advantage would increase. The inter-factor relationships showed that there were significant and positive relationships. These findings showed that the various pricing strategies complemented each other for the benefit of increasing the level of competitive advantage among the cement manufacturing firms.

The findings in Table 4 on the model summary showed that all the predictors explained 68.1% of the variation in competitive advantage (*R*-squared = 0.681, Adjusted *R*-squared = 0.674). The coefficient of determination explained the extent to which changes in the response variable could be explained by the change in the explanatory variables or the percentage of variation in the dependent variable that was explained by all the independent variable. ANOVA results in Table 4 showed that the model fit was good as illustrated by overall test of significance with F-test value of 107.655 with p value < 0.001. Thus, the model was fit to predict competitive advantage using the various pricing strategies employed by the cement manufacturing firms.

Effect of value-based pricing strategy on competitive advantage

The first specific objective of this study was to establish the effect of value-based pricing strategy on competitive advantage of selected cement manufacturing firms in Kenya. Thus, using the findings of the regression model, the study sought to answer the following research question: What is the effect of value-based pricing strategy on competitive advantage of selected cement manufacturing firms in Kenya? The findings in Table 1 showed that value-based pricing strategy had a positive and significant effect on competitive advantage of selected manufacturing firms in Kenya, $\beta_1 = 0.214$, $p = 0.001$. This meant that with each unit increase in use of value-based pricing strategy, the level of competitive advantage would increase by 0.214 units. In line with these findings, Liozu (2013) highlights that using prices based on customer's perception of value was a more modern pricing approach, although sometimes it incited a profound organizational change on the established organizational structure, the current corporate structure or the pre-existing processes and systems. Ingenbleek, Debruyne, Frambach, and Verhallen (2003) affirm that perceived value-based pricing, along with pricing practices that refer to the use of information about costs and competitors' prices, are intimately related to the product's performance, the service and the business as a whole.

These authors demonstrated that the usage of value-based pricing is a key pricing practice for obtaining larger returns and for creating some kind of comparative advantage for the companies' offers.

Effect of competition-based pricing strategy on competitive advantage

The second specific objective of this study was to determine the effect of competition-based pricing strategy on competitive advantage of selected cement manufacturing firms in Kenya. As such, the study sought to assess this effect with the aim of answering the research question that: What is the effect of competition-based pricing on competitive advantage of selected cement manufacturing firms in Kenya? The findings in Table 2 revealed that competition-based pricing strategy had a positive and significant effect on competitive advantage, $\beta_2 = 0.302$, $p < 0.001$. This means that with each unit increase in the use of competition-based pricing strategy, competitive advantage increased by 0.302 units. The main advantage of this approach was considering the actual pricing situation of the competitors, and its main disadvantage was that the demand related aspects were not considered. Furthermore, a strong competitive focus among the competitors could increase the risk of starting a price war among competitors in the market (Heil & Helsen, 2001). Liozu, Boland, Hinterhuber, and Perelli (2011) conducted a research mapping the pricing processes of companies which based their prices on competitors and they found that managers used their knowledge and experiences to define prices, as well as models of costs, contribution margin goals, and well-structured profit goals. On the flip-side, pricing reduction strategies based on competition, in which companies may seek to increase the volume of sales, can also encourage the competitors to lower their prices while contributing to a predatory competition and a price war, resulting in reduced profit margins and smaller companies' profitability (Diamantopoulos, 2005).

Table 4: Correlation and Regression Results

Model Summary Statistics						
R	.825a					
R Square	0.681					
Adjusted R Square	0.674					
F	107.655					
Sig.	0.000b					
	Unstandardized Coefficients		**Standardized Coefficients**			**correlation**
	B	**Std. Error**	**Beta**	**t**	**Sig.**	
(Constant)	0.491	0.163		3.012	0.003	
Value based	0.208	0.06	0.214	3.441	0.001	0.706
Competition Based Pricing	0.293	0.065	0.302	4.5	0	0.74

a Dependent Variable: Competitive Advantage

Conclusion and implication of the study

The findings showed that there were different pricing strategies that were used by the cement manufacturing firms in Kenya with some being utilized more compared to others. Thus, a more robust approach to pricing should guide how the firms set their prices. It is important to have a clear assessment of the market in terms of opportunities, new market, product innovation and competition in order to have a clear path on how to carry out pricing.

Market assessments can be utilized in having an initial look of the environment that the firm operates in. The cement manufacturing industry has seen tremendous growth over the past decade coupled with an increase in appetite for residential and commercial space in majority of the urban centers in Kenya. While this has been healthy for the development of the nation, there has been price increases because there are only a handful of cement manufacturing firms in Kenya that have monopolized the market hence price rigidity has been the norm with little room for the venturing of new players in the market. There is need to create a conducive environment for more investment to come in in order to increase competitiveness and stabilize the pricing of the product. Furthermore, attention is drawn to the role of regulatory bodies in ensuring that though the industry remains vibrant and shareholders are able to realize profits, the primary target which is the building industry also benefits from friendly prices that can spur more growth.

This study focused on the cement manufacturing firms in Kenya only. However, there is need to increase the scope to cover other sectors so as to confirm the findings of this study and also to add more knowledge. Furthermore, while there are firm-inherent factors that determine the direction of pricing and how this influences competitive advantage; there are factors that are inherent from the external environment in terms of policies and operational procedures that might have an influence on the firms’ practices pricing. Thus, there is need to have a deeper look into the role of the external environment more, in terms of practices and policies, so as to get an overview of the challenges with view of addressing them from all angles.

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