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Effect of Pricing at a Premium on the Competitiveness of the Product in the Communication Industry Market in Kenya

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Abstract: **The main objective of this research was to look into effect of pricing at a premium on the competitiveness of the product in the communication industry market in Kenya Pricing of products to achieve higher profit margins often becomes a huge challenge for most managers of communications product development teams, especially if the product is new to the specific category. A descriptive research design was utilized in this study. The sample comprised three divisions within Safaricom Kenya limited. The product development teams, more so those dealing with pricing from the selected departments constituted the target population. Stratified random sampling was used to sample 50 respondents. A questionnaire was used to collect data through drop and pick method. The gathered data was analysed using descriptive studies. The study found out that premium pricing influences strategic pricing decisions.**

The study recommended that companies through its policy makers should come up with high product prices that will help control and stabilize the products return in the market.

Keywords: **Pricing, Premium, Communication Industry.**

1. INTRODUCTION

There are multiple approaches to pricing of information technology products and services. Although pricing strategies differ based on whether the software or system is getting sold as a product or getting leased as a service, there are certain basic generic strategies for pricing the same. Cost-based pricing of technology is historically the most popular method since it relies on more readily available information from the cost-accounting system (Menger, 2012). Since often, information technology post deployment is treated with Activity based costing, while developed in-house for many firms; a cost based pricing strategy becomes extremely lucrative to developers for the simplicity of development. Cost of development of a software product is often calculated based on the COCOMO model or from the COCOMO – II model. The problems of a cost-driven pricing strategy arise from the assumptions that must be made about product costs. But then, one needs to consider the fact that unit costs are volume dependent while fixed cost per unit is allocated such that it varies with projected volume. The allocation procedures, be they direct labour hours, or some other surrogate metric, are not very precise. Therefore, product costs are not too dependable and offer technology developers lower returns on their investments. Several methods have been discussed on how to properly price an abstract product that results from technology and software tools. Some of these methods include Value based pricing, technology pricing, product pricing, asset pricing, technology price, price of technology, price of IT, price of systems, value based pricing, ROI, technology returns, evaluating price of software, pricing of software, software pricing. This document will analyse some of them together with strategy practices to come to a conclusion of which method would be better to apply within particular circumstances.

2. STATEMENT OF THE PROBLEM

In a very competitive industry and a price sensitive market, it is very important that the players strategically determine their market prices so that they retain and expand their current market share. Firms in telecommunication industry play a very central and indispensable role in the effective delivery of basic inputs and key services to the functioning of the government and overall running of the country. In 2004 the government introduced result based management (RBM) to ensure transformation of the public/Private sector to be more focused and responsive to the needs of those it serves. The adoption of RBM required a paradigm shift in government and called for transformation of public/ private service from a passive, inward looking bureaucracy to one which is proactive, outward looking and result oriented; one that seeks customer satisfaction and value for money. Trade is a crucial driver of growth (Stern, 2003). For Kenya to achieve the double-digit economic growth envisaged in Vision 2030, Kenya must be able to respond to local and global market demands. Kenya, just like many African countries, is confronted by challenges in improving its capacity to meet production and quality standards which are Obligatory to access foreign markets, especially the European Union which is one of Kenya's biggest trading partners. Cognizant of the importance of system certification in growth and development (especially ISO 9001:2008), the Government of Kenya issued a directive (in 2010) that all agencies should begin the process of ISO 9001:2008 certification and ensure that they are fully certified by 2012. Kenya’s Prime Minister noted that standards are a useful intervention for tackling shortcomings in the public/ private service delivery that have, in the past, constrained Kenya’s quest for development. It is from the foregoing that the current study was based.

3. LITERATURE REVIEW

The existing literature globally has shown that research has been done on pricing practices in the Telecommunication industry. With the greater successes of Chinese companies during the 2000s, companies all over the world found that it was necessary to have good pricing practices in order to stay competitive. Strategic pricing management is an enhancement to the traditional way of doing business. It is a proven technique to guarantee survival in world class competition (Lagrosen, 2012). Only by changing the actions of management will the culture and actions of an entire organization be transformed. The existing literature has showed that research has been done on pricing practices in telecommunication sector. Little or no empirical research has been conducted dealing with pricing practices and their effects on overall business performance in telecommunication industry. Telecommunication industry contributes 26% of the GDP, there is need to enhance factors affecting product practices within the sector. With premium pricing, businesses set costs higher than their competitors. Premium pricing is often most effective in the early days of a product’s life cycle, and ideal for small businesses that sell unique goods. Because customers need to perceive products as being worth the higher price tag, a business must work hard to create a value perception. Along with creating a high-quality product, owners should ensure their marketing efforts; the product's packaging and the store's décor all combine to support the premium price. In a famous article published in the New York Times Magazine in 1970, Friedman repeated and completed this approach by saying: ‘the only one responsibility of business towards the society is the maximization of profits to the shareholders, within the legal framework and the ethical custom of the country’ (Jensen and Meckling, 1976). This approach, which currently is presented as ‘shareholder value oriented’, usually takes shareholder value maximization as the supreme reference for corporate governance and business management. Generally, ‘shareholder value oriented’ goes along with the Agency Theory (Ross, 1973), which has been dominant in many business schools in the last few decades. In this theory, owners are the principal and managers are the agent. The latter bear fiduciary duties towards the former, and are generally subject to strong incentives in order to align their economic interests with those of the owners, and with the maximization of shareholder value.

4. RESEARCH METHODOLOGY

Quantitative technique was used since the expected information from the field involved factual elements that presented using descriptive statistics. The target population of the study composed of the staff members of Safaricom which was divided into three categories. The respondents were drawn from homogenous population; therefore, the researcher used stratified random sampling technique to select the respondents. Data was collected using primary (field research) and secondary (library) sources. Questionnaires were physically given to the respondents in the selected Divisions for data collection through operation manager by drop and pick method. Analysis of data was done using regression model.

5. FINDINGS

The study sought to establish the extent to which the respondents agreed on the statements premium pricing on the competitiveness of a product in the communication market in Kenya. Table 1 shows three item questions that represent perceived level of effect Premium Pricing on the Competitiveness of Products in the Communication Industry in Kenya. The responses were tabulated and analysed using mean and standard deviation on a Likert scale ranging from 1-5. In the Likert scale where 5 represented strongly agree and 1 represented strongly disagree (Likert, 1932).

Table 1 Effect of Premium Pricing

Statement	1 %	2 %	3 %	4 %	5 %	Mean	Std. Dev.
High prices ensure shareholder returns are maximized	3	10	7	33	47	3.9	1.1192
High prices are necessary to break even in target duration	1	0	20	30	46	4.05	1.099
Setting of premium prices for products allows technology firms to be able to accommodate the cost of production.	7	23	30	23	17	3.5	1.3572

The finding revealed that on statement High prices are necessary to break even in target duration had a standard deviation of 1.099 and a mean of 4.05 followed closely by statement that High prices ensure shareholder returns are maximized, this was followed lastly by a statement Setting of premium prices for products allows technology firms to be able to accommodate the cost of production with a standard deviation of 1.3572 and a mean of 3.5.

A question was posed on setting high prices to ensure shareholder returns are maximized. 3% of the respondents strongly disagree 10% Disagreed 7% were undecided, 33% agreed and 46% strongly agreed. The results showed that the companies had a massive support for the idea that high prices should be set for products to ensure that the company stakeholders are satisfied with the company's performance, with only about 19% having a contrary opinion. On whether the company needs the high prices to quickly break even and start making profits, 1% of the respondents strongly disagreed, 20 % were undecided, 30% agreed and 46% strongly agreed. From the results a higher percentage (76%) of the respondents had the opinion that setting premium prices is necessary for product sustainability. A question was also posed on whether setting high prices for a product would allow a company to comfortably accommodate the costs of production. The responses were as follows: 7% of the respondents strongly disagreed 23 % Disagreed 30 % were undecided, 23% agreed and 17% strongly agreed. The finding also revealed that on statement High prices are necessary to break even in target duration had a standard deviation of 1.099 and a mean of 4.05 followed closely by statement that High prices ensure shareholder returns are maximized, this was followed lastly by a statement Setting of premium prices for products allows technology firms to be able to accommodate the cost of production with a standard deviation of 1.3572 and a mean of 3.5.

6. CONCLUSION AND RECOMMENDATION

The study recommended that companies through its policy makers should come up with high product prices that will help control and stabilize the products return in the market. This will consequently ensure that the breakeven point is achieved within timelines and that the product is held in high esteem by the market. This will then have a significant impact on the profits and eventually improve the company's economic performance.

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