

## THE IMPACT OF PRICING STRATEGY ON CUSTOMER LOYALTY IN A PRODUCTION COMPANIES (A CASE STUDY OF HI-MALT AND 7UP BOTTLING COMPANY, KADUNA)

---

**Abdullahi Ndagi Yakubu; Salihu Shehu & Nwokenkwo Ben Olubunmi**

Department of Marketing

The Federal Polytechnic, Bida, Niger State

Email: ndyakubu1976@yahoo.com; Shehumunir2005@yahoo.com & bunmin wokenkwo@gmail.com

---

### ABSTRACT

One of the most crucial decision management must make in business is establishing a selling price for its product, but this is quiet unfortunately that many firms are still not paying attention to price of their products causing a lots of firms to loose customers to competitors. This study sought to find out the pricing strategies adopted by companies and its impact on customer's loyalty. This study used the descriptive survey design, the use of this design facilitated an in depth analysis of the role of pricing strategies on customer loyalty. The population of this study was the hi-malt and 7up and coca cola bottling company with a population of over 1000 and sample size of 100 in Kaduna metropolis. The collected data was sorted edited and coded before the analysis, using non parametric, percentage pie chart and chi square to test the Hypotheses, the finding confirmed that, price has impact on the customer loyalty. The researcher recommended that company should endeavor to compare price of products with that of competitors before setting price compare prices.

**Keywords:** *Pricing Strategy, Customer and Customer Loyalty*

### INTRODUCTION

One important factor that has been considered in many exchange relationships is price, which is the financial value that is given out in exchange for a product. the literature on consumer studies regarding price have argued that customers hold an internal reference price which serves as a standard against which newly encoded prices are compared (Diller, 2000; Matzler *et al.*, 2006). The reference price therefore provides base for customers to

determine their level of satisfaction with the exchange, the so called "Price satisfaction", which has been explored in detail by authors such as Diller (2000) and Matzler *et al.* (2006) in consumer markets. Although price satisfaction has been direct impact on consumer behavior and loyalty them. Obviously, this increased loyalty can be reducing the costs of switching customer to other brand and use of marketing tool is word of mouth.

In today's competitive and turbulent environment, according to a new marketing philosophy is customer oriented, organization focused on customer and look at things from the perspective of the customer. Batt (2004) argues that while a long term business relationship may reduce some market uncertainties, it may not be enough to provide price certainty. As a result, suppliers may abandon their exchange partner from time-to-time to obtain a better and more reasonable price. In business-to-consumer (B2C) relationships, price satisfaction plays a significant role in competitive strategies, influencing customer's purchase intentions which may eventually lead to business profitability and sustainability (Boniface *et al.*, 2011). Studies tend to operationalised price satisfaction as a uni-dimensional construct (Gyau and Spiller, 2008). The need for targeted projects to attract and retain loyal customers is the company's activities.

Price satisfaction is an important factor which influences buyer seller relationships. Because price is one of the most flexible elements of the mixed marketing and it varies after changing the characteristics of products and services (Dovaliene and Virvilait, 2008). Therefore, the main objective of this study was to evaluate the effect of price satisfaction.

The aim of this paper is to provide a detailed analysis of the concept of price satisfaction on the loyalty of electric Appliances factories from a supplier's point of view.

## **STATEMENTS OF THE PROBLEM**

Factors determining customer loyalty have been brought to light by marketing research. But, this information still is far away for some

producers engaging in the productions and services. Even though, immense of information available in the marketing environment, their success will be reached only when acting upon them. One of the most crucial operating decision management must make in business is establishing a selling price for its product, but this is quiet unfortunately that many firms are still not paying attention to price of their products causing a lots of firm to loose customers to competitors. In Nigeria, there are a variety of companies into production of goods and services. But, some of them are focusing on different types of marketing mix and not paying adequate attention on price. However, some companies are very successful than their competitors even during the period of credit crunch. This informed my decision to do the research on the above.

### **RESEARCH OBJECTIVES**

In line with the issues identified above, the main objectives of the study are to;

- i) To examine the significant relationship between price and customer loyalty.
- ii) To determine the impact of price and customer loyalty.

### **Research Questions**

The researchers hope this research will answer the following question regarding pricing and customer loyalty.

- i) Is there any relationship between price and customer loyalty?
- ii) Does price have impact on customer loyalty?

### **Research Hypothesis**

H0: There is a significant relationship between customer satisfaction and customer loyalty.

H0: Pricing has greater impact on customer loyalty.

### **LITERATURE REVIEW**

#### **Loyalty**

A deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, *despite*

situational influences and marketing efforts having the potential to cause switching behavior (Oliver, 1997).

## **Dimensions of Price Satisfaction**

### **Price Reliability**

Customers will perceive high price reliability if there are no hidden costs, if prices do not change unexpectedly (Diller, 1997). Reliable prices would enable suppliers to plan their activities and reduce the risk of financial loss when the prices they receive are relatively stable (Somogyi & Gyau, 2009). Price reliability is also related to reference prices which are based on the past price of the same product at different occasions (Mayhew & Winer, 1992). Thus no unexpected changes in market prices and conditions are also reasonably priced appliance is effective in attracting and retaining customers. According to this, H5 addresses the relationship between price and price reliability customer loyalty:

*H1: price reliability has significant impact on loyalty in business*

### **Relative Price**

competitive environment in the industry sector to which a firm belongs significantly influence the firms performance. Competitive factors consist of number of the competitors, the size of the competitors, the specific target market and customers, industry structure and the intensity of rivalry. The airline sector is highly commoditized and generally possesses low loyalty (Gerzema, 2007). Customers choose an appliance companies normally are driven by the price, convenience and availability. In this study, the price of the product compared to the competitor is labeled as relative price. Therefore, the optimal level of this case can lead to satisfaction and loyalty.

### **Price-quality ratio**

Consumers describe value to a product or service subject to their perception of two factors: perceived price and perceived quality, or, in other words, the price-quality ratio. If perceived quality exceeds perceived costs, customer value is high, if cost exceeds quality, customer value is low. One of the most widely used definitions stems from Zeithaml (1988). She defines perceived value as “the

consumer's overall assessment of the utility of a product based on perceptions of what is received and what is given. In any case, a favorable price-quality ratio in (i.e. high customer value) will enhance customer satisfaction and in turn loyalty.

### **Price Fairness**

Perception of price unfairness will affect consumers' perception of product value and perceived price fairness or unfairness is one psychological factor that has an important influence on the customers' reaction to price satisfaction. Consumers are not willing to pay a price that is perceived unfair. Consumer reactions can result in boycotts, civil action or in lower sales (Campbell, 1999). Dual prices can be so different from fair being expressed. First, one is the price and the quality perceived by the customer, second is comparing offered price and competitive price accepted and norms of society (Xia et al., 2004).

### **Price transparency**

By having easier access to information, having more alternatives and substitutes, to simplify transactions, increasing customer power are involved. Normally it can be concluded that customers need more honesty, transparency and full information on products and prices. Thus, price transparency can be considered aspect of pricing policy. Price transparency exists when the customer can easily get a clear, comprehensive, current and effortless overview about a company's quoted prices. As a consequence of a high price transparency, customers' search and evaluation costs will diminish, which should lead to higher price satisfaction. Several companies have installed software-based advisors which help the customers get all the product- and price-related information they need for their buying decisions (Matzle *et al.*, 2006). Therefore, changes in home appliances products market price and timely forecasts of price transparency can also lead to greater customer loyalty and commitment.

### **Customer loyalty**

The most widely accepted definition of loyalty is Jacoby and Kyner 1973, who describe loyalty as the biased (i.e. non-random) ,

behavioural response (i.e. purchase), expressed over time, by some decision making unit, with respect to one or more alternative brands out of a set of such brands, and is a function of psychological (i.e. decision making evaluation) processes. However, Oliver (1994) based on the collective failure to provide a unitary definition and the reliance on three phases; cognitive affective and behavioural intention. These three phases lead to a deeply held commitment, predicting that consumers develop loyalty in a linear fashion. Oliver (1999) criticises this and similar definitions. Dick and Basu, (1994), based on the collective failure to provide a unitary definition and the reliance on three phases: cognition, affective and behavioural intention.

### **The Correlation between Pricing Strategies and Customer Retention**

These days, firms mainly rely on the positive performance of sales to achieve profits and thus are sensitive with the way they price their products and services and companies that are in favor of customer orientation always prefer lower prices as to have a large pool of customers flowing their way (Donalds 2004). On the same note, Wiley (2005) informed that the whole idea of adequate pricing of company products and services is mainly targeted to positively influence a company's sales volume which brings the reason why companies at entry stage use penetrative pricing where they put their products in the market at a slightly lower price than that of competitors.

Customer retention is mainly determined by the pricing strategies put in place by a firm. The way management of firms decide to price their products has a high effect on the rate of customer retention, for example, considering the existence of 2 companies offering products of the same make and quality with one offering a less monetary value to the market, Clients will highly desire and decide to purchase from the company that offers the products at a lower price as opposed to the one charging highly (Thomson 2005). Hilton et al(2005), Dawes et al(2006) spoke out that customer retention is highly affected by the pricing strategies that are put in place and the formula companies position their products and services in the global competitive, market will determine the extent of retained

customers. Taking a look of penetrative pricing strategy for a company that is new in the market is the best to apply for it will provide products at lower prices and thus attracting more customers who are willing to buy the less priced products and with good management, this will in the long run uphold the high rate of customer retention. Johnston (2005) says that there are various factors that determine the rate of customer retention like Personal traits, Organizational factors and many more but he puts more emphasis on pricing strategies as the major determinant for customers in a company for they are mainly moved and impressed by the price differences between companies.

The weight of pricing strategies on customer retention highly depends on their effective application in the existent whole market. For customers who perceive value more than anything, then application of value based pricing strategies should be seriously taken into consideration so as to bring observable rate of customer retention (Naumann 2008). In order to maximize customer retention, it has to be linked to the marketing goals of the company and closely be associated to customer loyalty and pricing through critically observing the reactions of customer price sensitivity. (Anderson et al 2003).

### **Nature of Pricing Strategies**

Price is the ultimate payment in the switch of an offered good or service. This is explained in other words as the worth or importance associated with a good or service and thus we can say pricing strategies is a method where different companies establish prices for the services and products that they provide when penetrating the market and when already penetrating in one (Roxer 2009). Yan (2008) thinks that the marketing configuration of a company forms the underlying base of pricing strategies for instance the non-intergraded competitive pricing. Fall (2008) brought into light that various strategies of pricing are coached under guidelines of a couple of resolutions embracing the financial, commercial and psychological factor.

David & Simonetto (2005) bring into light that innovation and positive movement of pricing strategies and its application as seen through the positive continuous achievement in sales is always not seen by the external members of a company. Donald (2004) informed that in the marketing environment, pricing strategy is a hard and complicated element and has a necessity to show the supply and demand relations. The available strategies used in pricing provide a simpler base for firms to attain their fore set objectives, share of the market and gain index.

### **Types of pricing strategies**

Forman and Hunt (2005) identifies that there are 13 strategies of pricing among which include the following Low Price Supplier Strategy experience curve, Leader Pricing, Complementary pricing, Penetration Pricing, Price skimming and Premium pricing. Hinter Huber (2008) informs that a company's rate of profitability and retention levels are highly affected by pricing. He highlights that the pricing strategies differ variously depending on the available industry, country of operation, available clients and as well the way companies offer the value of their products and services which will in the long run determine their productivity.

### **METHODOLOGY**

This research was carried out employing data collected from both primary and secondary sources. The primary data were collected through the administration of questionnaires to hundred staff of soft drink from different company's operators such as hi-malt, 7up and coca-cola in Kaduna metropolis using non-probability sampling method. Tabulation was used to analyze the data and Chi-Square was used to test hypotheses formulated.

### **RESULTS AND ANALYSIS**

Hunderd (100) questionnaires were distributed and all were completed and returned giving a 100% response rate.

Please respond to each question by ticking the appropriate column on right hand side of this page. **SA** = Strongly Agree; **A** = Agree; **U** = Undecided; **D** = Disagree; **SD** = Strongly Disagree.



S/N		SA	A	U	D	SD
1	Company use economic pricing strategy.					
2	Company use penetrating price strategies.					
3	Company use price skimming strategy.					
4	Company use premium pricing strategy.					
5	Pricing strategy affect the cost of service.					
6	Your company also uses psychological pricing strategy.					
7	Pricing strategy used has impact on customer loyalty.					
8	Pricing strategy brings about proper decision making your company.					
9	Pricing strategy affect the customer patronage.					
10	Satisfy with the pricing strategies use by the company					
11	Pricing strategy affect customer loyalty.					

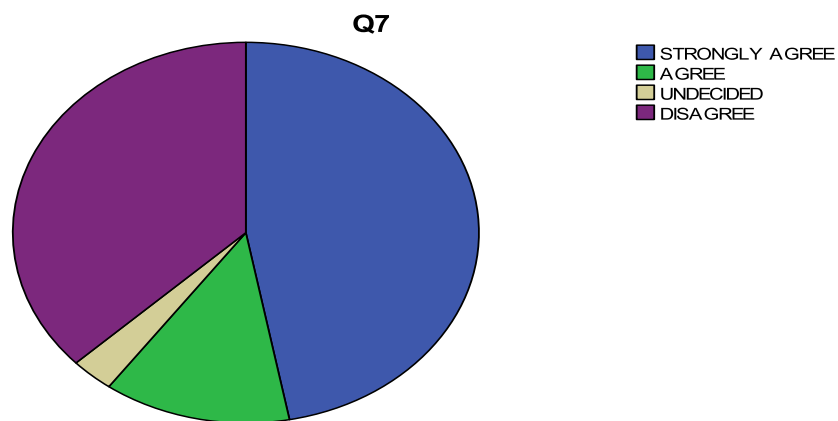


TABLE: 4.28

<b>PRICE STRATEGY HAS IMPACT ON CUSTOMER'S LOYALTY</b>			
	Observed N	Expected N	Residual
STRONGLY AGREE	48	33.3	14.7
AGREE	44	33.3	10.7
DISAGREE	8	33.3	-25.3
Total	100		

Source: Field Survey, 2018

From the table above it shows that 48 (33.3%) of the respondents strongly agree that penetrating price strategy can lead to customer loyalty 44 (33.3%) agree, while 8 (33.3%) disagree.

<b>Test Statistics</b>					
	Q2	Q4	Q5	Q6	Q9
Chi-square	31.340 <sup>a</sup>	37.300 <sup>b</sup>	22.640 <sup>c</sup>	66.320 <sup>c</sup>	29.120 <sup>a</sup>
Df	2	4	3	3	2
Asymp. Sig.	.000	.000	.000	.000	.000
HYPOTHESIS TESTING					
H <sub>0</sub> : Price has no impact on customer's loyalty.					
H <sub>1</sub> : Price has impact on customer's loyalty.					
LEVEL OF SIGNIFICANCE: 0.05					

**Decision Rule:** Reject H<sub>0</sub> if p-value < 0.05 otherwise do not reject.

**Calculation:** (TEST STATISTICS TABLE ABOVE)

**Conclusion:** Since the p-value for all the test statistics above is asymptotically significant to be 0.000 < 0.05 we reject H<sub>0</sub> and conclude that price has impact on customer's loyalty.

## DISCUSSION AND CONCLUSION

The purpose of this study is analyzing the impact of price satisfaction on customer loyalty in business and from the output resulting from tested hypotheses it can be concluded price satisfaction have Positive influences on customer's loyalty in business.

According to the first hypothesis, it is suggested: product pricing by considering the perceptual quality of customer, second, pricing products according to brand value among customers.

According to the second hypothesis, it is suggested: first, compare prices and features of products with competitors in order to improve the effectiveness of customer loyalty. Second create a balance of price, convenience and availability of the products with respect to customer requirements.

It is suggested: providing sense of satisfaction to the customer by improving quality, flexible production and sale with respect to the variables affecting on maintain of customer satisfaction. According to the Fourth hypothesis,

It is suggested: understand how the customer's perception of the fairness of the price, increase customer loyalty by doing some marketing activities (public relations and branding).

This study has some limitations. First, attention to personal and organizational consideration by people in answer to questionnaire questions. Second, several factors can have an impact on loyalty in business, but in this study due to time constraints, it is possible all factors affecting on loyalty in business has not investigated

## **REFERENCES**

- Batt, P. (2004). Incorporating measures of satisfaction, trust and power-dependence into an analysis of agribusiness supply chains, in Johnson, G.I. and Hofman, P.J. (Eds).
- Biren.P, 200.,Analysis of Pricing Strategies for new product introduction pricing strategy and practice,5 132-141 © MCB University Press
- Boniface, B. & Gyau, A. & Stringer, R. (2011). Linking price satisfaction and business performance Malaysia dairy industry ,Journal of Marketing and Logistics ,vol. 24, no.2, pp.288-304.

- Campbell, M.C. (1999). Perceptions of price unfairness: antecedents and consequences”, *Journal of Marketing Research*, Vol. 36, No. 2, pp. 187-99.
- Catherine. S Tim.S, Beth.R, Valerie.H and Mike.T, 2006. Developing a benchmark for company –wide sales capability ,industrial and commercial training.
- Davidson. A and Simonton. M. 2005. Pricing Strategy and execution : an overlooked way to increase revenues and profits, *strategy and Leadership*
- Dawes et al. 2006 and Hilton et al . 2005. ‘Building brands through brand alliance: does a second ally help?’ *Marketing letters*,15,2/3.147-159 Hinterhube
- Diller, H. (2000). Preiszufriedenheit bei Dienstleistungen. Konzeptionalisierung und explorative empirische Befunde, *Die Betriebswirtschaft*, 60 (5), 570-587.
- Diller, H. (1997). Preis-management im Zeich des Beziehungsmarketing. *Die Betriebswirtschaft*, Vol. 57, No. 6, pp. 749-63.
- Dovaliene, A., and Virvilaite, R. (2008). Customer value and its contribution to the longevity of relationship with service provider: the case of theatre industry, *Inzinerine Ekonomika-Engineering Economics*, 1, 66-73.
- Gerzema John (2007). Energy: Igniting brands to drive enterprise value· *International Journal of Market Research*, Vol. 49.
- Gyau, A., Spiller, A. (2008). The impact of supply chain governance structures on the interfirm relationship performance in agribusiness. *Agricultural Economics*, 54(4), 176.

- Kyle.T. 2009.The impact of mode of operation on customer retention in International Services, *Journal of services Marketing* 19/1,39-46
- Matzler, Kurt; Würtele, Andreas; Renzl, Birgit. 2006. Dimensions of price satisfaction: a study in the retail banking Industry, *International Journal of Bank Marketing*, Vol. 24, Iss: 4, pp .216 – 231.
- Mayhew, G.E. & Winer, R.S. (1992). An Empirical Analysis of Internal and External Reference Pricing Using Scanner Data, *Journal of Consumer Research*, 19(3), 62-70
- Moghareh.A and Haghghi .M, 2009. The effect of selling strategies on customer retention, *Business strategy series* 10,(5),266-282
- Morgan et al. 2007. ‘ ‘Assessing the competitive impact of pricing ,timing, frequency and magnitude of retail promotions,” *Journal of Business Research*,40,(1),1-3)
- Oliver, R. L. (1999). Whence consumer loyalty?, *Journal of Marketing*, Vol .63, pp. 33-44
- Smith,J.H and Brats,A.M. 2000. ‘ ‘Strategic pricing and performance,” *Strategic management journal*,(17),77-91
- Somogyi, S. & Gyau, A. (2009). The Impact of Price Satisfaction on Supplier Relationship Performance. *Proceedings of the Australian and New Zealand Marketing Academy (ANZMAC) Conference, Melbourne, Monash University: School of Management and Marketing.*
- Vilela. B and Varela .J. 200. Impression management tactics and affective context: influence on customer retention appraisal, *European journal of marketing*,41(5/6),624-639

- Xia, L., Monroe, K. B. and Cox, J. L. (2004). The price is unfair! A conceptual framework of price fairness perceptions, *Journal of Marketing*, Vol. 68, No. 4, p. 1.
- Yan.R. (2008). Pricing strategy & practical Pricing strategy for companies with mixed online and traditional retailing distribution markets *Journal of product & Brand management*,48-56
- Zeithaml, V.A. (1988). "Consumer perceptions of price, quality, and value: a means-end model and synthesis of evidence", *Journal of Marketing*, Vol. 52, No. 3, pp. 2-22.

---

Reference to this paper should be made as follows: Abdullahi Ndagi Yakubu *et al.*, (2019),The Impact of Pricing Strategy on Customer Loyalty in a Production Companies (a Case Study of Hi-Malt and 7up Bottling Company, Kaduna). *J. of Management and Corporate Governance*, Vol.11, No. 1, Pp 43-56

---