Demand Based Pricing Strategies and Competitive Advantage: Evidence from MTN Company in Bushenyi - Ishaka Municipality, Uganda

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Abstract: The study on "demand based pricing strategies and competitive advantage: a case of MTN Company in Bushenyi – Ishaka municipality, Bushenyi district". Issues of competitiveness in MTN seem to have arisen from keeping costs at a high level, overpricing products, and failure to address customers needs as these make the public unhappy making them want to migrate to other companies that offer better services. Hence, the pricing strategies and their leverage on competitive advantage in MTN Corporation was investigated. The objective of the study was to assess how demand based pricing affects competitive advantage. Cross sectional survey was used as research design. From a population of 70, a sample size of 60 respondents was selected. Purposive, stratified random and simple random sampling were used to select respondents. Questionnaires and interview guide were used to collect data. Data was presented, analyzed and interpreted by use of frequency tables, percentages and Pearson's Linear Correlation Coefficient. The major findings indicated that: prices in MTN were very high; the pricing strategy used by MTN was demand-based rather than cost based or competition-based pricing strategies. It was established that customers preferred penetration pricing strategy. It was observed that by using demand-based pricing strategy, MTN is helped by the fact that most of its products are used by corporate customers. This allows MTN to have high prices that are not based on other competitor's charges and which give it a competitive advantage. Nevertheless, penetration pricing strategy was regarded as the most suitable by the customers. It was concluded that, for a company that depends on non corporate clientele, penetration pricing strategy may help the company to have a competitive edge over rivals.

Key Words: Competitive Advantage and Demand Based Pricing Strategies

1. Background of the Study

Competition in the telephone industry became an important issue in the early 1900s when AT&T (The American telephone and Telegraph Company) began buying small telephone companies (Bruner, Innes & Passer, 2017). In 1913, the U.S attorney general warned AT&T that some of its planned purchases of phone companies could violate antitrust laws, which are designed to prevent competition (Brenner, 2018). In the early 1990s, telephone companies and firms that provided other communication services moved to compete with one another. The Telephone Act of 1996 loosened many restrictions that had limited many restrictions that had limited competition in the telephone industry (Vogel, 2018). For example, it allowed local telephone companies, long distance companies, and cable television companies to enter each other's businesses (Ojala, Evers & Rialp, 2018). Over the years, advances in technology opened up the possibility for new competition AT&T, often called Bell telephone because of its founder, Alexander Graham Bell, had become dominant in the telephone industry – it controlled almost 90% of the market (Bruner, et.al. 2017). A series of deregulatory decisions by the FCC during the 1960s and 1970s incrementally opened certain parts of the market to competition and new entrants like McClelland and Sprint became important – if much smaller – competitors in the long distance service. (Lipartito, 2010). In the 1960s and 1970s, direct involvement in the information revolution was generally limited to large organizations in the private and public sectors (Scase & Goffee, 2017). The big computers and advanced telecommunications and information systems of the time were very expensive to access and operate and only major customers, large corporations, universities, research institutions and government agencies could afford to use them (Lewis, 2017).

1.2 Statement of the Problem

High prices are at the root of MTN Telephone Corporation. Customers of MTN are outranged because they are charged more than any other telephone company. With few alternative or little hopes, their possibilities and motivation for remaining with MTN are limited. Recent thinking holds that cost should be the last item analyzed in the pricing formula, not the first. Companies that use priced-based pricing can maximize their profit by first establishing an optimal price for a product or service. The product's price is based on an analysis of a product's competitive advantages, the users' perception of the tem, and the market being targeted. Once the desired price has been established, the firm focuses its energies on keeping costs at a level that will allow a healthy profit. Keep in mind that although few businesses fail from overpricing their products, many more will fail from under pricing (Cornell& Damodaran, 2020). Some customers have been forced to abandon MTN Corporation and join other telephone companies that offer low prices. MTN policy of profit maximization has been largely responsible for the loss of customers. MTN Corporation uses price strategies such as skimming pricing, prestige pricing and profit based pricing that do not broadly address the concerns of the majority of customers. Most products are at high prices, the attitude about high prices is likely to continue driving away a large number of customers from MTN Corporation. Competitors in the telecommunication business have taken advantage of the high prices in MTN to attract customers who were hither to loyal to the corporation (Ikeokwu & Wagbara, 2018). When prices are unduly high and entry into the field is severely limited, public outrage often is seen. In recent times this has been a highly visible issue with regard to telecommunication companies (McNair, 2017). For this matter therefore, the researcher intends to investigate the effect of demand based pricing on competitive advantage of MTN Corporation in Bushenyi - Ishaka Municipality, Bushenyi District

1.3 Objective of the study

To assess how demand based pricing affects competitive advantage of MTN Corporation in Bushenyi - Ishaka Municipality, Bushenyi District.

1.4 Null Hypothesis

Demand based pricing does not significantly affect competitive advantage of MTN Corporation in Bushenyi-Ishaka Municipality, Bushenyi District

2. Literature Review

Demand based pricing is a price setting method based on estimates of demand at different prices. To use any of the pricing strategies based on demand, firms must research demand – they must learn what qualities of a product different target markets are willing to buy at different prices. Often marketers use customer surveys in which consumers reveal whether they would buy a certain product and how much of it they would buy at various prices (Aschemann-Witzel & Zielke, 2017). No matter what products you're marketing, the process of pricing starts with a thorough understanding of the wants and value perceptions of customers. Even when you're not customizing a product for an individual customer, your prices must reflect value to which customers will respond. That's the only way to build a customer relationship that will stand the test of time. When pricing a new product, a company or business unit may follow one of two strategies. For new-product pioneers, skimming pricing offers the opportunity to "skimming the cream" from the top of the demand curve while the product is novel and competitors are few. In contrast, penetration pricing, attempts to hasten market development and offers the pioneer the opportunity to utilize the experience curve to gain market share and dominate the industry (Simon & Fassnacht, 2019). Depending on corporate and business unit objectives and strategies, either of these choices may be desirable for a particular company or unit (Nagle & Müller, 2017). However, research reveals that penetration pricing is more likely than skim pricing to rise a unit's operating profit in the long term (Feng, Hu, Yang & Liu, 2019). Skimming strategy targets high class customers who are willing to pay high prices. Customers are likely to be fewer prices sensitive. The company is likely to reap profit when competitors are few. However, the company is unlikely to dominate the market when other competitors who are ready to offer low prices enter. Customers who are price sensitive are attracted by lower prices when competition is high. Whereas skimming pricing generates high sales revenue for the corporation, targeting customers who are willing to pay a high price for high quality products might not be advantageous to a company such as MTN (Blank & Dorf, 2020). This is because in the long run, a number of customers are likely to leave and join other companies that offer low and attractive prices. Reducing prices to attract customers who are somewhat more prices sensitive might not be an easy task for companies that use profit based strategies. Competitors such as Warid telecom, Orange, Uganda telecommunication and Airtel are likely to take advantage of high prices by reducing prices on their products to attract a large number of customers. In addition, high prices do not necessarily translate into high quality. Before you start pricing your products, stop to consider the role of pricing in your broader marketing and organizational strategies (Deepak & Jeyakumar, 2019). Depending on what your organization wants to achieve and the specific objectives written into your marketing plan, you can set long-term pricing objectives corresponding to the five types namely pricing for profit, pricing for sales growth, pricing for competitive advantage, pricing for positioning, and pricing for social goals. Most for –profit marketers use pricing to support their profit objectives, and they set specific targets to measure the profitability. Profit is what remains after paying for costs and expenses out of sales revenues (Armstrong, et.al. 2018). You can set pricing objectives to meet specific targets for profit returns, such as return on investment, return on assets, and return on sales (Tay-Teo, Ilbawi & Hill, 2019). You can also use pricing to achieve targets for gross margin, the amount that remains after deducting the cost of goods sold from sales revenues. Gross margin is usually expressed as a percentage of revenues. To increase your profit margin, you can raise prices, lower the cost of goods sold or do both (Porter & Kramer, 2019). Pricing to achieve gross margin targets can be tricky. Until competition became too fierce, Apple Computer used pricing to support aggressive profit objectives. The company wanted to boost gross profit margin to 55 percent by maintaining relatively high prices as it pursued cost efficiencies. Because rivals were regularly shaving gross margins, this objective hampered Apple's ability to complete (Libert, Beck & Wind, 2016). Under pressure to achieve immediate returns, many competitors other than MTN are using pricing to maximize current profits, trying to make the highest profit right now. This approach is fostered, in part, by the need to satisfy investors and market analysts, who watch quarterly returns. By downplaying long-term customer satisfaction in favor of short-term profits, however, a marketer is exposed to competition from more patient marketers, willing to invest in long-term customer relationships. Financial strategy's goal is to provide the corporation with the appropriate financial structure and funds to achieve its overall objectives (Bina, 2019). In addition, it examines the financial implications of corporate and business-level strategic options and identifies the best financial course of action. It can also provide competitive advantage through a lower cost of funds and a flexible ability to raise capital to support the corporation (Kotabe & Kothari, 2016). Financial strategy helps MTN Company to examine its financial position and operations. It helps the company to provide checks and balances and the opportunity to assess whether it is operating at a profit or loss. In addition it helps other telephone companies to lay pricing strategies and prepared the ground for competitive advantage over its rivals or competitors when the need arises (Davenport & Harris, 2017). The first step in setting a price is to match it to the objectives you set in your strategic marketing plan. Is your goal to increase market share, increase sales, improve profits, project a particular image, or combat completion? Consider Intel. This Silicon Valley chipmaker slashed prices on its Pentium brand microprocessors to boost sales and fend off lower-priced rival brands. Rolex takes a different approach, using premium pricing along with other marketing-mix elements to give its watches a luxury position (Kumar, Paul & Unnithan, (2019) The study of strategic management and business policy by Michael, Courtland (2002) revealed that government plays a big role in pricing in many countries. To protect consumers and encourage fair competition, the U.S. government has enacted various price related laws over the years. Three important classes of pricing are regulated: (1) price fixing – an agreement among two or more companies supplying the same type of products as to the prices they will charge, (2) price discrimination—the practice of unfairly offering attractive discounts to some customers but not to others, and (3) deceptive pricing—pricing schemes that are considered misleading. A skimming price strategy is one in which a new product is priced high to make optimum profit while there's little competition. Of course, those large profits will attract competitors such as Warid telecom, UTL, Airtel and orange to lower their prices and outcompete the MTN.

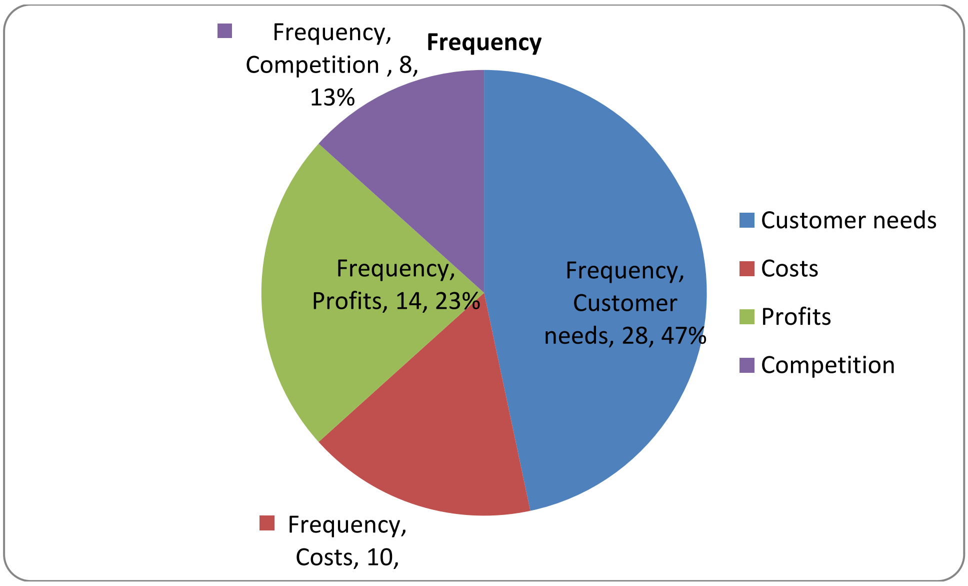
3. Methodology

The research design was a cross sectional survey where by respondents are examined simultaneously at a single point in time. Qualitative approach was used to collect information that was narrative in form where by information was obtained from respondents who expressed their views on the study under investigation. Details on how respondents behave or respond on the administered instrument were recorded in the narrative form by use of panel data collected from selected respondents. Qualitative approach was used by the researcher to identify respondents for first hand information. Qualitative method is less linear and more flexible and holistic in approach where by the experiences of respondents are focused on for understanding of the whole concept. A total of 5 branch managers were selected by purposive sampling from the 5 selected wards because of the position they hold as managers. A total of 60 agents were selected by dividing two respective groups or strata according to gender (Male and Female). From each stratum, 6 females and 6 males were selected by stratified random sampling. sampling. The data collected were analyzed on the basis of research questions and objectives. Data from the open ended questionnaires, Interview guides were categorized into themes and then converted into percentages. Data were presented in form of frequencies, percentages and was summarized into tables, graphs and pie charts for easy interpretation. Lastly, there was a descriptive analysis of the results in form of tables, graphs, pie charts which helped to interpret data and consequently draw conclusions in order to answer the research questions. Data were edited, coded, classified, tabulated and analyzed accordingly. Data were analyzed by use of Pearson's product moment correlation coefficient (r)

4. Results

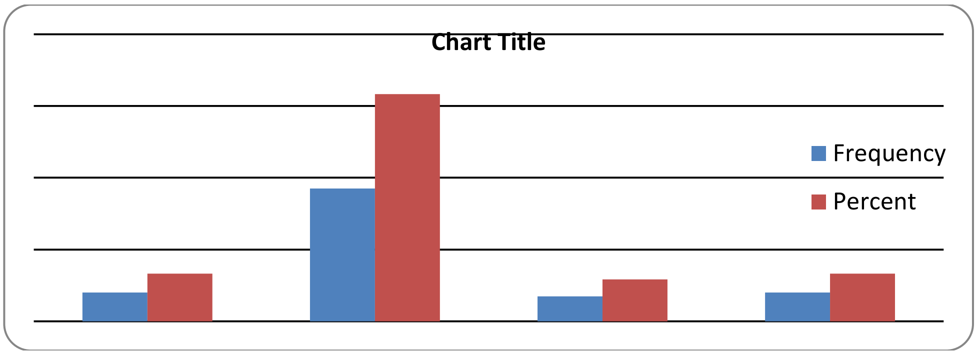
This section presents findings of the study on demand based pricing strategies and competitive advantage in MTN Uganda Bushenyi Ishaka municipality. The findings are presented as below

Figure 4.1: Demand based pricing strategy used by MTN to take advantage of the market



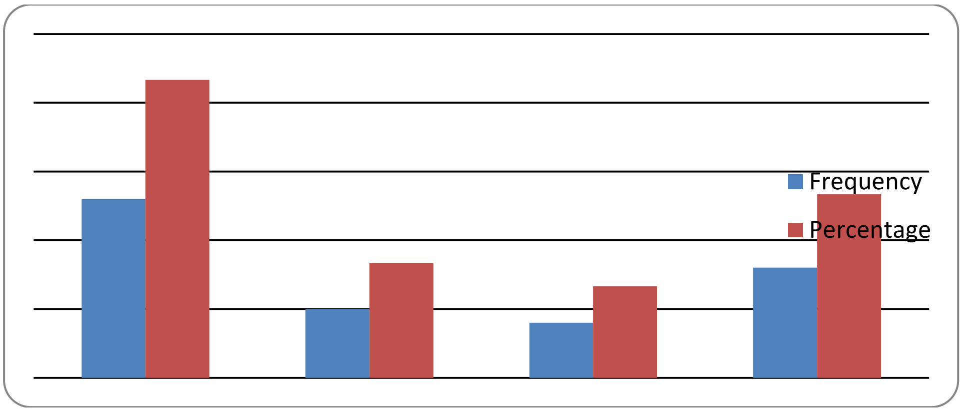
The responses from figure 4.1 above indicate that 46.7% of the respondents stated that the demand based pricing strategy considers customers' needs whereas 16.7% of the respondents mentioned costs. The responses also indicated that 23.3% of the respondents mentioned profits where 13.3% of the respondents stated that competition is taken as a priority in demanded based strategy.

Figure 4.2: Price strategy for customers' satisfaction and royalty



The responses in figure 4.2 indicated that 13.3% of the respondents stated that skimming pricing was the price strategy suitable for all customers' satisfaction whereas 63.3% of the respondents mentioned penetration pricing as the suitable strategy for all customers. The responses also showed that 11.7% of the respondents stated that prestige pricing was suitable whereas 13.3% mentioned price lining.

Figure 4.3: Price strategy commonly used by MTN to attract more customers



The results in Figure 4.3 indicated that 43.3% of the respondents stated that the price strategy commonly used by MTN was demand based pricing whereas 16.7% of the respondents mentioned cost based pricing. The responses also show that 13.3% of the respondents mentioned profit based pricing as the common strategy whereas 26.7% of the respondents mentioned competition based pricing.

Table 4.1 Descriptive Statistics on Demand Based pricing

		SA		A		D		SD	
		F	%	F	%	F	%	F	%
	Prices set by MTN are profit based	12	20%	5	8.3%	15	25%	27	45%
	Separate specific prices are set for each product	32	53.3 %	8	13.3 %	13	21.7 %	7	11.7 %
	MTN agents add money on products	5	8.3%	6	10%	15	25%	34	56.7 %
	Quality of service is considered to outperform competitors.	23	38.3 %	6	10%	10	16.7 %	21	35%
	Prices are based on spending on products	27	45%	12	20%	14	23.3 %	7	11.7 %
	MTN prices are based on other competitors' charges	15	25%	8	13.3 %	9	15%	28	46.7 %

The responses in table 1 indicated that 20% of the respondents strongly agree that MTN prices were profit based whereas 8.3% of the respondents agreed. The responses also showed that 25% of the respondents disagreed that prices set by MTN were profit based whereas 45% of the respondents strongly disagreed. The responses also indicated that 53.3% of the prices for each of its products whereas 13.3% of the respondents agree. The responses also showed that 21.7% of the respondents disagreed whereas 11.7% strongly disagreed that MTN set separate price for each of its products. On the inquiry into whether MTN agents are given the opportunity to add a certain amount of money on their products, the findings indicate that 8.3% of the respondents strongly agreed that

MTN agents were given the opportunity to add a certain amount of money on their products whereas 10% of the respondents agreed. The responses also showed that 25% of the respondents disagreed whereas 56.7% of the respondents strongly agreed. Investigation into whether quality of service is considered before customers' needs, the findings indicate that 38.3% of the respondents strongly agreed that quality of service is considered to outperform competitors whereas 10% of the respondents agreed. The responses also showed that 16.7% of the respondents disagreed whereas 35% of the respondents strongly disagreed. Investigation into whether MTN sets price according to what they buy on product /materials, the response in table 4.7 indicates that 45% of the respondents strongly agreed that MTN sets prices according to what they spend on buying products/materials whereas 20% of the respondents agreed. The responsible showed that 23.3% of the respondents disagreed and 11.7% of the respondents disagreed. Finally, the findings indicate that 25% of the respondents strongly agreed that MTN prices are based on other competitors' charges whereas 13.3% of the respondents agreed. The respond able showed that 15% of respondents disagreed whereas 46.7% f the respondents strongly disagreed.

Table 4.2 Determining the relationship between demand based pricing and Competitive Advantage

		demand based pricing	**Competitive Advantage**
demand based pricing	**Pearson's Correlation**	**1**	**0.72****
	Sig	**0.001**	
	N	**60**	
Competitive Advantage	**Pearson's Correlation**	**0.72****	**1**
	Sig	**0.001**	
	N	**60**	

Level of significance (0.05)

The findings in the table above showed that significance ($p=0.001<0.05$) implied that the null hypothesis which stated that "Demand based pricing does not significantly affect competitive advantage of MTN Corporation in Bushenyi-Ishaka Municipality, Bushenyi District" was rejected hence the alternative hypothesis was accepted meaning that there was significant relationship between demand based pricing and Competitive Advantage. Pearson correlation ($r=0.72$) showed that there was a strong positive relationship between financial decentralisationand Competitive Advantage

5. Discussion, Conclusions and Recommendations

5.1 Discussion

The findings of the study revealed that 63.3% of the respondents strongly agreed that MTN Corporation gave discounts to its customers to attract them to buy more of its products. Discounts are an incentive to customers who subscribe to the company. Discounts also build confidence among customers. The problem, however, is that discounts are sometimes given for a short time or when the company is selling off the old stock or products and introducing new products. Discounts can help the corporation to make high returns and at the same time gain a competitive advantage over other competitors. On the other hand, discounts can make the corporation lose profits in the struggle to take the competition over other competitors in the same business. The results indicated that 45% of the respondents stated that customers are the most price beneficiaries whereas 30% of the respondents mentioned directors as beneficiaries and 25% of the respondents mentioned employees as beneficiaries. Customers become the prime beneficiaries when prices are reduced and stand to lose when prices are raised. On the other hand, Directors of the corporation are likely to gain when prices are raised or lowered depending on whether profits are realized on returns from sale of products or services. Employees are only likely to benefit when the company is expanding in business and more profit have been accumulated. Employees benefit from increase in their salaries or wages and bonuses. This however depends on the prices strategy the corporation undertakes and the strength of its competitiveness over rivals. The findings revealed that 40% of the respondents strongly agreed that customers are highly sensitive to price charges whereas 15% of the respondents strongly disagreed. Indeed whenever there any kind of price change whether by increasing or decreasing, customers are likely to react accordingly. Customers would always want to know whether prices are in their favour or not. An increase in prices is likely to push customers away whereas a decrease in price is likely to pull customers. The corporation has sometimes raised prices on products and services without customers being aware of the changes. In addition, price charges in MTN have in one way or another forced some customers to leave the corporation and subscribe to other companies. High prices tend to discourage customers and help competitors to gain competitive advantage. The findings indicated that 45% of the respondents stated that customers were less sensitive to price changes that took place only for big purchases of products whereas 25% of the respondents revealed that customers were sensitive on price charges because of purchasing products as a necessity. In addition, customers expected better services on price charges. Customers seem not to be bothered by changes in prices set by MTN if such prices were for small purchases such as "Air Time" of 500 Sh. and call time charges of between 50 Sh. to 100. The findings revealed that 46.6% of the respondents strongly agreed that prices set by MTN comply with legal and regulatory guidelines set by the Uganda Communication Commission whereas 16.7% disagreed. The Uganda communication commission is the regulatory policy established by government to oversee all communication operations by corporations / companies. However in most cases telephone companies operate beyond commissions guidelines at the expense of customer's ignorance. When the company enters into problems with the commission, it is the customers when pays heavily.

5.2 Conclusion

Discounts are given as an incentive to attract customers to buy more of its products and at the same time build more confidence and trust in the corporation. Discounts have helped the company to gain competitive advantage over its competitors. Customers are likely to become beneficiaries when the company decides to reduce prices on products and stand to lose when prices are raised. Customers are price sensitive and react ordinarily whenever there is an increase or decrease in prices of products and services. They are not well informed when prices on products are raised. Some customers are less sensitive to price changes for small purchases of products whereas others viewed the purchasing of products as a necessity.

5.3 Recommendations
Customers are price sensitive and react accordingly MTN should therefore develop a price strategy that is able to respond to customers' needs immediately. Whenever there is an increase or decrease in prices of products and services, customers should be well informed. MTN should devise a strategy of setting prices that can cater for low income customers' sense they mostly price sensitive for small purchases. Changes in price strategy should aim at enhancing competitive advantage where customers' needs are equitably addressed. Penetration pricing was likely to be the suitable price strategy for all customers' satisfaction. MTN should improve and maintain this strategy since it attracts many customers in a short time and at the same time enable the corporation to enter the market.

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