

Effect of Pricing of New Coca Cola Soft Drink Products on Sales Performance of Coca-Cola Company in Nyahururu Town

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Abstract

A sales performance review of new soft drinks products introduced by Coca cola in Mount Kenya region, established that only 15% have succeeded, 55% have performed poorly, 17.5% have failed completely and another 12.5% have exhibited an abnormally high artificial growth. However, there is scanty and inconclusive empirical data that would explain this trend of Coca cola products within Nyahururu town in Kenya. The purpose of this study was to examine the effects of price as marketing mix variables of new Coca-Cola soft drinks products on the company's sales performance in Nyahururu town. The specific objectives included examining the effects of pricing, of new Coca cola soft drinks products on sales performance of the company in Nyahururu town. To achieve these objective, hypotheses was formulated and tested empirically. This study was based on the marketing mix theory by Borden. The study adopted a descriptive research design that gathered both quantitative and qualitative data. The target population comprised of 375 managers and owners of outlets selling Coca cola soft drinks in Nyahururu town. The sample size was 75 which was 20% of the target population as per postulations from Mugenda & Mugenda (2003), which was arrived at through stratified random sampling. Out of this, 73 responded meaning the response rate was 97.3%. The study used a questionnaire to obtain primary data whose validity was enhanced through discussions with the supervisors. Test-retest method was used to achieve reliability during a pilot study conducted in Subukia town. Cronbach's alpha was used to test the reliability in which 0.789 values was obtained which was acceptable. Quantitative data was analyzed using the Statistical Package for Social Sciences (SPSS) version 20 computer software and presented in frequencies, percentages, and tables for clarity. Qualitative data was used to supplement interpretation of quantitative data. The study established that pricing of new products had an influence on sales performance of the existing Coca cola products. The, study recommends that the pricing of new products should compare favorably with existing products so as to avoid cannibalization and intra-distribution channel competition. The study has added to the body of knowledge that could benefit students, researchers and academicians interested in this area of study.

Keywords: Market Mix Variable, Pricing, Coca Cola, Sales Performance, Products

1 Background and Literature Review

1.1 Marketing Mix

"Marketing mix" is a general phrase used to describe the different kinds of choices organizations have to make in the whole process of bringing a product or service to the market. The 4Ps is one way – probably the best-known way – of defining the marketing mix, and was first expressed in 1960 by McCarthy (Mind Tools, 2014). The four P's of marketing are product, price, place and promotion. The four P's are the four key elements which the marketers of new products must take into consideration when setting out to design a successful marketing plan. The first of the four elements of the four Ps is product, which, Ehmke et al (2005) described as the goods and services that a business offers to its customers. Apart from the physical product itself, there are elements associated with products that customers may be attracted to, such as the way it is packaged. Other product attributes include quality, features, options, services, warranties, and brand name (Ehmke, Fulton, & Lusk, 2005). The price element of the 4 Ps is how much a business charges for its products or services. The "Place" aspect, of the 4 Ps of marketing, refers to the distribution channels used to get a business' product to its customers. Finally, the "Promotion" aspect of the four Ps of marketing refers to the advertising and selling part of marketing. It is how you let your target market know what you are offering for sale.

The success of a company is dependent on a well-balanced and integrated 4Ps of marketing mix, also known as the Marketing Mix Variables. The components of the Product, its Price, the Place (distribution channels), and Promotions have to suit each other. The marketers must embrace and integrate all marketing mix variables to see where adaption to product, price, and promotion and so on is needed (Kotler & Keller 2009). In case the marketing mix is not in balance, the communications might not reach the right audience at the right time, or the customers cannot buy the product when they want to, as it is out of stock, or the product is priced out of their reach, or even worse, the product does not meet the customers' expectations.

1.2 Soft Drinks

Soft drinks market is strong world over with two major companies as players; PepsiCo and Coca Cola that compete vigorously with each other. PepsiCo's marketing mix has evolved over time, driven by the effects of

mergers and acquisitions. The company's 4Ps is a combination of strategies and tactics that the firm uses to implement its marketing plan. In cognizance of this, the company employs various strategies and tactics based on its array of products and brands. It also considers the differences among markets that require variations in the approaches it uses in its marketing mix. However, despite these variations, PepsiCo's marketing mix has a number of general characteristics that define the company's general corporate approaches to its marketing plan implementation. PepsiCo remains effective and globally successful in this aspect. PepsiCo's pricing approaches involves market-oriented pricing strategy and hybrid everyday value pricing strategy (Young, 2015).

Coca cola is the world's largest beverages company which began more than a century ago and has more than 500 sparkling and still brands. Every day, the company sells 162 million litres of Coca-Cola and 84 million litres of other drinks such as Coca-Cola Light, Fanta, and Sprite. Coca-Cola brand is known to 78% of the world's population, and about 10 450 of its products are used every second. Two countries with the highest per capita usage are Mexico and Iceland (Sengupta, 2013). It is also one of the world's most valuable and recognizable brands. Furthermore, the Company's portfolio features 17 billion-dollar brands including Diet Coke, Fanta, Sprite, Coca-Cola Zero, vitamin water, PowerAde, Minute Maid, Simply, Georgia and Del Valle, which are availed in different Stock Keeping Units (SKUs) (SAB Miller, 2014). The Company operates a worldwide franchise system supplying syrups and concentrates to over 1,200 bottling operations, (there are more than 350 in the US and 7 in Kenya) which thus involves local companies and suppliers in the 200 countries in which Coca-Cola is sold (Business Case studies UK, 2015).

1.3 Coca Cola in Kenya

In Kenya, the Coca cola Company has a regional office based in Nairobi which oversees the operations of its 7 franchises. These franchises are Mount Kenya Bottlers which services Mount Kenya region which includes Nyahururu Town, Rift valley Bottlers, Kisii Bottlers, Nairobi Bottlers, Equator Bottlers, Coca cola Juices and Coastal Bottlers. Other major players in the Kenyan soft drink industry market include Delmonte, Kevian Kenya, Highland Water Company, Pepsi, Picanna juice and East African Breweries through their malt based soft drink known as Alvaro. In addition, due to the economic integration of East African countries of Kenya, Uganda, Tanzania and Rwanda, which has led to the reduction of trade barriers, there have been importations of other brands of soft drinks into the Kenyan market from members of the regional bloc. These brands include Azam energy drink and Lavita soft drink from Uganda which are taking up the market share traditionally controlled by Coca cola company products. Further, Coca cola bottling companies in Uganda and Tanzania enjoy lower taxes in their countries making their products more affordable unlike their counterparts in Kenya, and this has led to transshipments from those countries leading to intra bottler's competition. Therefore, this means that the soft drink industry is one of the sectors of the wider economy that continues to witness immense brand or product proliferation. Due to the fierce competition, it has become imperative for the players within the industry to try and diversify their product range in an effort to better satisfy the customer and thus remain relevant in the market. Industry players are forced by circumstances to copy-cat tendencies amongst themselves especially when it comes to reacting to new products introduced into the market by competitors. A case in point is the 350 ml PET soft drink (in plastic bottle) which was introduced into the market by Coca cola in the year 2016 as a reaction to the introduction of 300ml PET soft drink by Highland Mineral Water Company. Virtually all players have similar products range in terms of the flavours offered in the market. Another factor contributing to the proliferation of brands within the industry is the influx of cheap imports from countries such as India and China into the market. This has introduced even more brands in an already overcrowded market. A study by (Tetra Park, 2000) estimated the future growth as follows: Juices and nectars-80%, Fruit flavoured-70%, Water-8% and carbonated drinks-1.5%. (Mugo, 2009)

1.4 Coca Cola representation in Nyahururu

In Nyahururu town, Kenya, the Coca cola Company is well represented in the over 375 retail outlets selling its products. These retail outlets are serviced by appointed distributors who have been selected through a rigorous process and they have to meet the desired Distributor Operating Standards Assessment (DOSA). The DOSA guides the distributor on the key areas of investment, administration, human resource, customer service and logistics. The company has also put a lot of focus on the retail outlets, given that its products are purchased through impulse. These are the outlets which play a big role when it comes to the introduction of new Coca cola products into the market. Outlets are channelized into bars, kiosks, supermarkets, superettes, eateries and convenience stores for better execution as all these different outlets have unique channel characteristics. In order to achieve company objectives, a structured way of execution known as Right Execution Daily (RED) is employed by the company. The RED focuses on key parameters in the market by focusing on availability of products, ensuring company chillers are optimized, and promotions at the point of sale. The company has invested in over 500 chillers which are placed strategically in the retail outlets in Nyahururu town. This ensures that the company products are chilled to the satisfaction and acceptability by the consumers. Further, this

investment in chilling equipment ensures that the company is ahead of the competition by locking outlet space and creating mutual partnerships with retailers. Local marketing programs such as shelf display competition and sales incentives are used by the company to drive sales. (Mount Kenya Bottlers, 2015).

1.5 Innovations of Coca Cola Company

Worldwide, the Coca Cola Company is renowned for its innovative and original marketing campaigns. However, in Nyahururu town, the business still faces increasing competition from local soft drink and beverage companies. In fact, competitors have developed sales strategies similar to those of Coca Cola Company. Highlands Water Company limited has come with chilling equipment to counter Coca cola domination of the market and has also introduced several soft drink brands to counter Coca cola brands. Therefore it has become imperative for the company to ensure that its marketing department's approach is productive enough so that it can preserve its leading position in an increasingly crowded market. If that is not done, the company will not reverse the negative trend in its sales performance.

2 Literature Review

2.1 Marketing Mix Theory

This study was based on the 4Ps theory of marketing or the marketing mix as coined in the early 1950s by Borden in his American Marketing Association presidential address. The term "marketing mix" became popularized after he published his 1964 article-The Concept of the Marketing Mix. Borden began using the term in his teaching in the late 1940's after Culliton had described the marketing manager as a "mixer of ingredients". The ingredients in Borden's marketing mix included product, planning, pricing, branding, distribution channels, personal selling, advertising, promotions, packaging, display, servicing, physical handling, and fact finding and analysis. McCarthy (1964) grouped these ingredients into Product, Pricing, Place and Promotion, often referred to as the "4Ps" and offered the "marketing mix", as a means of translating marketing planning into practice (Bennett, 1997).

2.2 Importance of Pricing

Price is what a customer have to pay to acquire a product, or cost of a product to a customer. Price is considered to be the most significant factor that affects consumer's choice. (Kotler, Armstrong, Saunders & Wong, 1999). It is the amount of money charged for a product or service, or the sum of the values that consumers exchange for the benefits of having or using the product or service" (Kotler and Armstrong, 2004).

Pricing is one of the important decisions that need to be made by a firm and which affects its revenue and profitability. In determining the price of a product, a company or marketing manager needs to consider not only the costs it takes to produce the item, but also the customer's perception on the value of the product. Moreover, companies strive to get the maximum margin by looking at a whole range of possibilities to set the right price to certain types of customer. According to Kotler and Armstrong (2004), price is one important element of marketing mix. Managers should follow a number of alternative pricing strategies. Some price decisions may involve complex calculation methods, while others are intuitive judgments. They should select a pricing strategy based on the product, customer demand, the competitive environment, and the other products being offered by the company. Consideration of other products being offered by the company will ensure that there is no cannibalization between products from the same organization. The pricing strategies that organization can employ include, Cost plus, Value based, Competitive, Going rate, Skimming, Loss leader, Discount and Psychological pricing strategies.

2.3 Cost-plus pricing

Cost-plus pricing strategy involves adding a mark-up above the cost of producing a product. Accurate assessment of costs, both fixed and variable is an important part of this pricing method. Value-based pricing strategy relies on the buyer's perception of value (rather than on the company's costs). The buyer's perception depends on all aspects of the product, including non-price factors such as quality, healthfulness, and prestige. Competitive pricing strategy is based on prices charged by competing firms for competing products. This pricing structure is relatively simple to follow because you maintain your price relative to your competitors' prices. In most cases the marketing manager directly observes competitors' prices and responds to any price changes. Going-rate strategy is adoption of the price charged that is the common or going-rate in the marketplace. This pricing is more common in markets where most firms have little or no control over the market price. Skimming pricing strategy involves the introduction of a product at a high price for affluent consumers. Later, the price is decreased as the market becomes more and more saturated. Discount pricing strategy is based on a reduction in the advertised price. Sometimes when a company wants to attract more consumers and penetrate the market, it may adopt the Loss-leader pricing strategy which is based on selling at a price lower than the cost of production. This strategy can also be used to fight competition in the short run. Psychological pricing is based on a price that

looks better, for example, \$99.99 instead of \$100.00 per unit. In determining price, firms should consider other marketing mix elements, as any decision made pertaining to those elements would affect the price too (Ehmke, C., Fulton, J., & Lusk, J. 2005).

Pricing is not primarily concerned with creating value. Rather, it could be said to be the marketing activity involved with capturing, or “harvesting,” the value created by the other types of marketing activities. In the words of Philip Kotler, “Price is the marketing-mix element that produces revenue; the others produce costs.” Because it is a marketing activity fundamentally different from the others, it is important that the implications of pricing’s uniqueness be fully understood by the marketing managers.

In most cases, whether they like it or not, companies have to set their price equal to market price. If it is more than market price, the consumers would not buy from them and find other sellers instead. Meanwhile, if it is less than market price, the company would receive many demands and would not be able to meet this expectation as their stocks would be limited.

Williams and Goldsworthy argues that the demand for soft drinks is relatively price-elastic. This means that as the price of soft drinks increases, the demand decreases to a greater degree, relative to the price change. In addition, demand for soft drinks is also relatively income-elastic, meaning that as consumers’ incomes decrease, the demand for soft drinks decreases to a greater degree, relative to the income change, and vice versa (Williams & Goldsworthy, 2014)

2.4 Global Overview of Coca Cola

At the global level, Coca-Cola and Pepsi Company’s wide distribution network gives them significant pricing power. Carbonated soft drinks have similar prices due to the intense competition in the industry. Often, soft drink companies extend lower prices under promotional offers. In recent times, such promotional offers have been used to boost volumes of the carbonated soft drinks. That is because they are under pressure due to rising health concerns and competition from healthy substitutes such as tea, juices, energy drinks and water (Bailey, 2014).

Researchers at Harvard conducted a study in the cafeteria of a financial services company. They increased the price of high-calorie beverages (those that contained 150 calories or more per container), mostly soda, lemonade, whole chocolate milk, and some juices, by one cent per ounce. The price of low-calorie beverages (45 to 149 calories) and zero-calorie beverages stayed the same. So a 20-ounce bottle of a high-calorie drink cost 20 cents more than the same-sized container of low-calorie or zero-calorie beverages. The increased price resulted in a 16% decline in sales of high-calorie beverages (Hellmich, 2013). Due to the availability of a wide range of products the pricing is done according to the market and geographic segment. Each sub-brand of Coca cola has different pricing strategy. Their pricing strategy is based on the competitors pricing. Globally, Pepsi is the direct competitor to Coca cola, but locally, the company also faces competition from various local companies such as Highland Mineral Water Company.

Thus, firms have to think comprehensively with regards to the marketing mix strategy, especially when considering the price. In the product development stage, instead of analyzing the product features first, firms can set the ideal selling price first for particular customers, and then develop the product to suit that price. This technique is called ‘target costing’ (Kotler and Armstrong, 2004).

3 Methodology

3.1 Research Design

This study used a Descriptive Survey Design that gathered both quantitative and qualitative data. Descriptive surveys are used to describe the situation on the ground as it is. Descriptive research is a process of collecting data in order to test the hypotheses or answer research questions concerning the current status of the subjects in a study. According to Donald and Pamela (2003), a study concerned with finding out who, what, which and how of a phenomenon is a descriptive study design. Mugenda and Mugenda (2003) argue that descriptive survey seeks to obtain information that describes existing phenomenon by asking individuals about their perception, attitudes, behavior or values. Descriptive research spans both quantitative and qualitative methodologies, it brings the ability to describe events in greater or less depth as needed, to focus on various elements of different research techniques, and to engage quantitative statistics to organize information in meaningful ways. The main goal of this type of research is to describe the data and characteristics about what is being studied. In the present study, this descriptive approach was particularly useful and appropriate because it gave a fairly accurate and authentic feedback of the problem under study

3.2 Study Location

This study was undertaken in Nyahururu Town of Laikipia County, in the Republic of Kenya. The town has a low population of 32,000 according to the 2009 census (Kenya National Bureau of Statistics, 2010). Nyahururu town was selected for this study because it has a well-developed retail sector and a fairly well educated

population ,which was necessary, as the respondents self-administered the questionnaire.

3.3 Study Population

According to Nachmias (1996) a population is the total collection of elements about which we wish to make some references. This study targeted managers and owners of outlets selling Coca cola’s soft drinks in Nyahururu town. These were the managers and owners of supermarkets, shops, kiosks, restaurants and bars. Only one respondent was interviewed per outlet. According to the Coca cola Customer Data Base as at August 2015, the outlets in the area of focus were distributed as below

Table 3:1 The Target Population

Establishment	Number	Manager/Owner
Supermarkets	5	5
Shops	217	217
Kiosks	85	85
Bars	26	26
Restaurants and Hotels	42	42
Total	375	375

3.4 Sampling Technique and the Sample size

A sample is a representative part of a larger group. The purpose of sampling is to secure a representative group which will enable the researcher gain information about a population (Mugenda & Mugenda, 2003). Stratified random sampling technique was used to select the sample. This is because the targeted population in this study had several strata or sub-groups with characteristics unique to the particular sub-group. The researcher divided the population into five sub-groups based on a relevant characteristic or criterion and then selected participants from each sub-group using random sampling. Gay (1992) observes that a sample size of 10% is considered minimum for large populations and 20% for small populations. Mugenda & Mugenda (2003) also postulates that between 10%-30% of a population is sufficient to give reliable findings. The respondents targeted were business owners and managers of 20% of the target population of 375 outlets which gave a sample size of 75 respondents selling Coca cola products in Nyahururu town, as distributed below.

Table 3:1 Sample size

Establishment	N	Sample
Supermarkets	5	1
Shops	217	43
Kiosks	85	17
Bar	26	5
Restaurants and Hotels	42	9
Total	375	75

3.5 Research Instruments

The researcher used a questionnaire to collect primary data. It was structured to collect information using closed-ended and open –ended questions. The great strength of this tool as a primary data collecting approach is its versatility. Additionally, the questionnaire was used because of its potential in reaching out to a large number of respondents within a short time, giving out the respondents’ adequate time to respond to the items. The questionnaire also offered a sense of security (confidentiality) to the respondent and finally, it was an objective method since there was no bias resulting from personal characteristics (as in an interview) (Owens, 2002).

The researcher distributed the questionnaire and then collected them later. Self-administered questionnaires were preferred because there was no interviewer bias resulting from presenting and recording the answers.

3.6 Reliability and Validity

Validity

Borg and Gall (1996) define validity as the degree to which a test measures what it purports to measure. Validity establishes whether the research instruments’ content is measuring what it is supposed to measure. The researcher prepared the instrument in close consultation with the supervisors whose expert judgment helped to improve content validity.

Reliability

Reliability enhances dependability, accuracy and adequacy of the instruments through piloting. The most common measure of reliability is Cronbach’s alpha, which is usually interpreted as the mean of all possible split-

half coefficients(Cortina, 1993).The value of the alpha coefficient ranges from 0 to 1 and is used to describe the reliability of factors extracted from questions with two possible answers, a higher value greater than 0.7 shows that the questionnaire is more reliable(Mohsen & Reg, 2011). To enhance reliability, a pilot study was carried out in Subukia town in the neighboring Nakuru County and Cronbach’s Alpha used to evaluate the consistency or the average correlation of items in the survey instrument. The Cronbach’s Alpha value attained was 0.789 validating the reliability of the research instrument. The findings were not included in the final report.

3.7 Data Analysis

Descriptive analysis was performed on the quantitative form of data to inform the research objectives. A descriptive research determines and reports the way things are. Descriptive analysis describes and summarizes data using a few indices or statistics. Statistical computations that were done included frequencies, percentages, and measures of association or relationship. Data analysis was done by use of the computer software known as Statistical Package for Social Sciences (SPSS version 20). Open-ended questions were analyzed using content Analysis. Qualitative data obtained was used to supplement the interpretation of the quantitative data. Tables were used to supplement statistical data. The presentation of data in tables enhanced the clarity of findings.

4.0 Finding

4.1 Statistical Analysis for Pricing of New Products

The study did statistical analysis on pricing of new products. The results are presented in the section below.
 Correlation of Pricing of New products

Table 4:1 Pearson Correlation of Pricing of New Product Against Sales Performance

pricing of new Coca cola soft drinks	Pearson Correlation	Sales Performance
	Sig. (2-tailed)	.014
	N	.906
		73

Table 4.1 shows that pricing of new Coca cola product has a positive relationship to the sale of other Coca cola products. The r value is 0.014. This shows the pricing of new products has a marginal positive effect on the performance of existing Coca cola products.

Table 4:2 Model Summary^a

Model 1	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.382 ^a	.146	.095	.895
a. Predictors: (Constant), the pricing of new Coca cola soft drinks				

Table 4.2 provides the R and R2 value. The R value is 0.382, which represents the simple correlation. It indicates a relatively low degree of correlation. The R2 value indicates how much of the dependent variable, "sales performance", can be explained by the independent variable, "pricing of new products". In this case, 14.2% can be explained, which is relatively significant.

Table 4:3 Coefficients of Determination of Pricing of New Products and Sales Performance

Modell	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	2.159	.314		6.874	.000
Pricing of new coca cola soft drinks affects sales of existing coca cola products.	.208	.157	-.221	-1.323	.190
Dependent Variable: sales of Coca cola soft drinks in my outlet has been growing					

Table 4.3 provides the information needed to predict sales performance from pricing of new products. Both the constant and pricing of new Coca cola products contribute significantly to the model. The regression equation is presented as follows; Sales Performance = 2.159 +0.208 (pricing of new products)

5.0 Conclusion

The study concludes that pricing of new products has an influence on the existing Coca cola products and that adjustment of prices of the new products has an effect on sales performances of Coca cola products, which can be positive or negative depending on the direction of the price adjustment. It also concludes that to a significant extent, customers do not consider price when buying new soft drink products and this phenomenon can be attributed to the fact that consumers do not have a price reference point as the product is new. The study further concludes that majority view prices of new Coca cola soft drink as matching with their quality and quantity.

6.0 Recommendation

The study established that pricing was very key when it came to a consumer making a buying decision.

Therefore, the price should compare favorably with existing products to avoid intra-product competition.

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