



## PRICE COMPETITIVENESS AND SALES PERFORMANCE OF SMALL AND MEDIUM SIZE EXPORTING FIRMS IN SOUTH-SOUTH, NIGERIA

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### ABSTRACT

The study investigated the relationship between price competitiveness and sales performance of food and beverage exporting Small and Medium Enterprises (SMEs) firms sector in South-South, Nigeria. The study adopted a descriptive survey research design, with the questionnaire as the instrument for primary data collection from a population involving 160 firms involved in exporting food and beverages. A copy of the questionnaire was administered to the sample made up of managers and owners of the firms. The questionnaire was validated by experts while the reliability test result using Cronbach Alpha produced a value of 0.869. Both descriptive and inferential statistical tools were employed to analyze the data with SPSS (version 21.0). The statistical result showed that price competitiveness had a positive and significant relationship with sales performance. It was therefore recommended that Nigerian SMEs especially those exporting food and beverage products should consider the prices of their international competitors when fixing the prices for their products as this would enable them to gain a competitive advantage in price that will consequently increase their sales performance.

### KEYWORDS

Price competitiveness, Repeat Purchase, Exporting SMEs, South-South Nigeria.



## INTRODUCTION

Exporting has become an important market entry activity for many small and medium enterprises (SMEs) in recent years as a way of sustaining their businesses and ensuring growth and survival (Patel & D'Souza, 2009) especially in a competitive domestic marketplace. Engaging in exporting helps business organisations, especially SMEs, the opportunity to possibly acquire international experience, overcome impact of demand fluctuation as well as enhance performance (Lages & Montgomery, 2004)

Previous studies reveal that SMEs make up a significant proportion of businesses within any nation and they play a major role in nation development (Okpara & Koumbiadis, 2009; Ibeh, 2004). SMEs in Nigeria, like in other nations of the world, are seen as the backbone of all economies and are important to economic growth. Innovative marketing approach will boost sales performance of SMEs and likely position them to play the role expected of them in economic transformation. Recall that SMEs are like economic spark plugs in the engine of nations' development. Given the intensity of competition in the world of business, a disposition towards creating value for customers has become imperative for SMEs. Such disposition may help improve the productivity of SMEs.

Value creation effort is an important aspect in marketing both at local and foreign levels in order to discover avenues to create and offer value to customers. Kotler (2003) added that firms can achieve value creation by enhancing the benefits of their offerings for customers and/or decreasing the costs of the products and services offered to customers. Again, the quest for SMEs to improve their sales performance in a market economy like Nigeria as well as in foreign markets has made the concept of value creation more prominent in recent times (Gunes and Aksin, 2004). Value creation in marketing can be considered as the performance of business activities that increase the worth of goods and services offered to customers. Small business operators need to understand what creates value in the marketplace.

Understanding what creates value will help entrepreneurs to focus capital and efforts on the most saleable and profitable opportunities for growth. For instance, if it is discovered that customers value consistent quality and timely delivery, then entrepreneurs will focus on acquiring talents and skills that will deliver quality products/services and put in place a system and processes that will ensure timely delivery. Thus, creating value for customers will likely help to sell products and services, while at the same time capturing value for entrepreneurs in terms of profitable sales and ensuring future availability of capital to fund subsequent operations (Taifi, 2013). Some marketing experts are of the opinion that SMEs operators should make value creation their number one priority considering the fact that value creation may likely impact positively on sales performance (Sullivan, Peterson, & Krishnan, 2012). If value creation is given priority in any business and executed in the right direction, entrepreneurs will know where and how to deploy resources optimally. Entrepreneurs will also be able to acquire and develop more talents than competitors which will give the company enormous advantage to achieve better sales performance in both domestic and foreign markets.

From the foregoing, it is safe to suggest that without value creation, a business venture operating either in domestic or foreign market may not maximize its marketing potentials in terms of sales performance. This implies that SMEs with remarkable sales performance records are likely to create value for their customers. It follows that SMEs operators in Nigerian food and beverages export sector may attain competitive advantage by creating value for their customers. It because of this that this current study sought to examine the relationship between price competitiveness as a dimension of value creation and sales performance of Nigerian food and beverages exporting SMEs.

## Literature Review

### Conceptual Review

#### Price Competitiveness

Price competitiveness in terms of export marketing is defined as the advantage in price, which may enable a firm to secure sales of its products in foreign markets at the expense of its competitors (Drabek & Olechowski, 2010). The advantage will represent a favourable incentive provided to foreign buyers to purchase the exporting firm's products (Drabek & Olechowski, 2010). Griffin (2012) stated that customers use prices as a guide to what

is normal or considered a good deal. Firms that enjoy a competitive advantage in price will influence customers to buy more. Price is the monetary value attached to a company's product or service (Griffin, 2012), and it is the only revenue generating element amongst the marketing Ps (Moyo et al, 2014). Most companies fix the prices for their products based on a number of factors which include manufacturing cost, market condition, quality of product etc (Moyo et al, 2014). In international trade, price competitiveness is measured in terms of differences in relative export prices; that is, differences between export prices of a firm's product and prices of their competitors.

In foreign transactions, some macro-economic variables like exchange rates, inflation rates etc constitute determinants of price competitiveness (Klitgaard & Orr, 1998). In the case of exchange rates, consider a purchaser choosing whether to buy a product from a U.S. or a Japanese dealer. To recognize the better product, the customer will think about the costs of the two merchandise in a in a common currency-say, U.S. dollars. The current yen-dollar swapping scale is utilized by foreign shoppers to carry out conversion. This relative price will guide the purchase decision and thereby serve as an indicator of the price competitiveness of the U.S. and Japanese producers (Klitgaard & Orr, 1998).

### Sales Performance

Generally, performance is the evaluation of behaviour in terms of its contributions to the overall goals and objectives of an organization (Mc Lellan, 2013). Sales performance represents the outcome of sales activities of firms (Servais & Jensen, 2012). This result manifests in the firm's sales growth, market share and profits (Okpara & Kumbiadis 2009).

Sales performance is the measurement of the number of sales in monetary terms that a firm makes over a given period of time. This implies that sales performance involves the evaluation of the amount of goods sold in a given period of time as compared to the expected or budgeted figure set out by a firm. Increasing sales performance improves firm growth in terms of revenue generation. Organisational managers tend to motivate their sales force to put in a good performance in order to increase the sales volume of the firm and maximize profit (Mc Lellan 2013). For this study, the measures of sales force adopted are repeat purchase and sales turnover.

**Sales Turnover:** Sales turnover refers to how often a company sells its entire inventory. Companies try to measure their sales turnover rate periodically usually through monthly or annually approach. This is why most accountants describe sales turnover as the total amount of goods sold within a specific period of time, usually annually.

**Repeat Purchase:** Repeat purchase relates to a customer's decision to buy a firm's product again based on his or her positive past experiences of using the product (Ehrenberg, 2008). Similarly, Vargo and Lusch (2010) defined repeat purchase as a decision to buy and also buy again and again from a particular product or service provider even in the future. Repeat purchase occurs when customers are satisfied with the product earlier purchased. According to Servais and Jensen, (2012), satisfaction increases a customer's likelihood of repeat purchase and/or decreases customer switching intentions. Servais & Jensen (2012) posited that satisfied customers are inclined toward repeat purchase. This satisfaction is determined based on his or her past experiences with the products. Increasing repeat purchase is very important to business organizations all over the world because it helps to boost sales and profit margin. Repeat purchase can make an organization to achieve increase in its sales revenue (Sharp & Sharp, 2008). Every firm including SMEs makes great efforts to increase repeat purchase so as to increase their sales and profit margin (Ehrenberg, 2008). In the international market where numerous firms from all over the world come to compete for international customers' income, retaining customers becomes a difficult task for exporting SMEs in Nigeria. Nigerian SMEs have to come up with various marketing strategies to retain their international customers and ensure repeat purchase.

## Theoretical Foundations

**Distinctive Competency Theory** Michael and Ireland (1985) argued that the capability of an organization manifest in its demonstrated and potential ability to accomplish whatever it sets out to do. They observed that what a firm can do, to a large extent, is a function of the resources at the disposal of the company and not just the opportunities it confronts. They opined that the veritable tool to a company's success has to do with its ability to find and or create a competence that is truly unique. Distinctive competences are those peculiar things that a firm or its units can do better when compared to its competitors. According to Michael and Ireland (1985) a firm can develop distinctive capabilities in such areas as general administration, operations, finance, R&D, marketing, personnel, etc. It can be added that distinctive competence can help a firm to be better positioned to create value that can enhance performance. Competencies represent major factors which can give rise to success in organizations (Levina & Ross, 2003; Feeney et al., 2005). Distinctive competencies can be considered as uncommon abilities a company enjoys in an industry and which serves as a platform to create value for customers which in turn lead to competitive advantage. This study is underpinned the distinctive competency theory because it is organizational competence that defines the ability of organizational managers to determine a pricing strategy capable of assisting the organization to compete in the marketplace.

## Empirical Review

### Price Competitiveness and Sales Performance

The open nature of the international markets allows business men and women from different countries to compete against each other (Peters, 2010). The issue of price competitiveness has to do with attaining a relative success in terms of selling in international markets on the basis of price advantage (Peters, 2010). In their study, Athanasoglou and Bardaka (2008) reported that export prices maintain serious impact on export sales performance of goods and services.

Athanasoglou and Bardaka(2008) further argued that exporters base their decision making to export on prices rather than on costs. It was discovered that international customers highly consider the prices of a country's products when making purchasing and re- purchasing decisions. Price is likely to vary from one exporter to another even if they offer similar products in the market. Mead (2013) argued that price variation in the international market is a source of competition. Moyo et al, (2014) maintained that the policy of price variation represents a company's price position in the foreign market. However, entrepreneurs exporting food and beverage products usually ask several questions while making decisions regarding what price to attach to their products. Such questions, according to Smith in Moyo et al (2014) include but not limited to: How much to charge for a product or service? The answers to such questions are very important to ensure that the right prices are charged for products to be sold in the international market. It is important for exporting SMEs to consider the prices of their international competitors since price variation is a source of competition in the international market. Considering competitors' prices is very important to gain a competitive advantage in price.

From the stand point of scholarly discourse, it is highly necessary for local companies to consider the prices of their international competitors while setting the prices for their export products. Drabek and Olechowski (2010) argued that although gaining competitive advantage in price will not necessarily guarantee the sales but it will represent a favourable incentive provided to foreign buyers to purchase the exporter's products. If gaining competitive advantage in price will represent a favourable incentive provided to foreign buyers to purchase the exporting country's products as alleged by Drabek & Olechowski (2010), then it is assumed that price competitiveness will facilitate sales performance of exporting SMEs in Nigeria. From the foregoing, it is hypothesized that;

HO1: There is no significant relationship between price competitiveness and sales performance Of food and beverages exporting SMEs in Nigeria.

### Research Methodology

**Research Design:** The researcher adopted survey research design in order to establish whether price competitiveness can influence sales performance of food and beverages exporting SMEs in South-South Nigeria. Sullivan (2001) believes that it allows for the use of both questionnaire and other data collection techniques like informal discussion, interview etc.

**Area of the Study:** The geographical area coverage of this research effort is the South-South geopolitical zone of Nigeria. At the moment this zone is made up of six (6) states which include The South-South zone covers about 70,000 square kilometers, 5000 communities, 50 ethnic groups with the Ijaws in majority and 250 dialects (NDDC Report, 2014).

**Sources of Data:** Primary source of data collection was used in this study through the field survey method of gathering information with questionnaire.

**Pilot Survey:** This study undertook a pilot survey in order to pretest the questionnaire. This was carried out so as to detect weakness in the design of the instrument and address issue of ambiguity in order to restructure the instrument in line with observations before executing full scale study. In the pilot survey, the researcher randomly administered twenty (20) copies of the research instrument (questionnaire) to selected respondents.

**Study Population:** A research population is an identifiable group or aggregation of elements (e.g. people, products, organizations, physical entities etc.) that are of interest to the researcher (Hair et al, 2000). Asika (2000) noted that a population is made up of all conceivable elements, subjects or observations relating to a particular phenomenon of interest to the researcher. To this end, the population of this study consisted of Food and Beverages manufacturing/exporting SMEs in South-South Nigeria, registered with Nigerian Export Promotions Council (NEPC). The study focuses on SMEs that manufacture and also export food and beverages and are based in South-South Nigeria. The distribution was as follows: Rivers and Bayelsa 92; Akwa-Ibom and Cross River 92; Edo and Delta 51. A census study of the total population of 160 was undertaken.

**Research Instruments:** This study adopted questionnaire as its research instrument. It was arranged in sections A and B. Section A dealt with the demographics of the respondents, while section B dealt with the study variables. The questions were designed in a simple format to ease response. The questions in section B were structured using five-point rating scale (Strongly Disagree, Disagree, Undecided, Agree, and Strongly Agree) which was rated 1 to 5 respectively.

**Validity of the Research Instrument:** In order to ascertain the validity of the research instrument, empirical approach was applied by carrying out a pilot survey to pre-test the questionnaire items raised. This measure was intended to find out the extent to which the target respondents understood the questions raised. Feedback from the pilot survey informed amendments on some grey areas to ensure clarity. In this study, to ascertain the validity, the instrument was subjected to scrutiny by the supervisor, colleagues in academia, and other informed persons. Specifically, three (3) experts in marketing and the research supervisor greatly contributed to ensuring the validity of the research instrument.

### Reliability of the Research Instrument

A Cronbach's Alpha test was conducted on the measurement items to determine the reliability of the study instrument. The SPSS output shows that the instrument used in this study was reliable with a coefficient of 0.869 which surpass Nunnally's (1978) benchmark of 0.7

**Methods of Data Presentation and Analysis:** The Pearson correlation was used to test the stated hypotheses and establish the nature of the relationship between the variables since the study intended to determine how price competitiveness as a dimension of value creation strategies could influence sales performance of food and beverages exporting SMEs in South-South Nigeria.

## Data Analysis and Results

### Questionnaire Administration and Responses

A total of 160 copies of the questionnaire were distributed amongst owners/managers of Food and Beverages manufacturing/exporting SMEs in South-South Nigeria, registered with Nigerian Export Promotions Council (NEPC). One (1) questionnaire was administered to a representative (owner or manager) of each firm studied for administration convenience. Out of the 160 copies of questionnaire administered, only 143 copies returned were considered useful. This accounted for 89.37% response rate. Due to obvious mistakes and incomplete responses, 5 copies accounting for 3.13% were dropped, while 12 copies representing 7.50% could not be retrieved due to misplacement and other reasons given by the respondents. Therefore, the total response rate that formed the basis of our analysis was 143 representing 89.37%.

**Demographic Profile of Respondents:** The abridged analysis of the demographic profile of respondents revealed how long the respondents have been involved in export operation. In specific terms, 49(34.3%) of the respondents affirmed that they had been in export operation for less than one year. Also, 38(26.6%) of the respondents had been in export operation for 1-3 years; 30(21.0%) have been in export operation for 4-6 years while 26(18.2%) had been in export operation for more than 6 years. On the category/designation of the respondents, the following were obtained: 102(71.3%) of the respondents are owners, 27(18.9%) of them were managers while 14(9.8%) include others.

### Inferential Statistics

The quantitative analysis was facilitated through the use of SPSS version 21.0.

### Correlation Analysis

In this section, bivariate analysis were carried out to determine the relationship between the dimensions of the predictor variable (price competitiveness) and the measures of the criterion variable (Sales performance) using the Pearson's Product Moment Correlation Coefficient.

### Research Hypothesis One

HO1: There is no significant relationship between price competitiveness and sales performance of food and beverages exporting SMEs in Nigeria.

**Table 1 Statistical Analysis for hypothesis on the relationship between price competitiveness and sales performance.**

		Pricom	Salesper
Pricom	Pearson Correlation	1	.828**
	Sig. (2-tailed)		.000
	N	143	143
Salesper	Pearson Correlation	.828**	1
	Sig. (2-tailed)	.000	
	N	143	143

\*\* . Correlation is significant at the 0.01 level (2-tailed).

From the result of the above Table, the correlation coefficient( $r=0.828$ ) between price competitiveness and sales performance is very strong and positive. The coefficient of determination ( $r^2 = 0.686$ ) indicated that 69% of sales performance can be explained by price competitiveness. The significant value of 0.000 ( $p<0.01$ ) reveals a significant relationship. Based on this outcome, the hypothesis is rejected. Therefore, there is a significant relationship between price competitiveness and sales performance of food and beverages exporting SMEs in Nigeria.

### **Discussion of Findings**

This study found a positive and significant relationship between price competitiveness and sales performance of food and beverage exporting SMEs in south-south region of Nigeria. This discovery was made based on the outcome of the statistical test of hypothesis H1 which shows that price competitiveness attracted a significant positive correlation coefficient ( $r = 0.828$ ;  $0.000 < 0.01$ ) indicating that the relationship is statistically significant. This means that Nigerian food and beverages exporting SMEs that enjoy a competitive advantage in price stand the chance of increasing sales performance of their products in the foreign market. Drabek and Olechowski (2010) supports this finding when they stated that gaining competitive advantage in price will represent a favourable incentive provided to foreign customers to purchase and repurchase the exporting firm's products.

### **CONCLUSION**

Specifically, the study was designed to examine if price competitiveness can influence sales performance of food and beverages exporting SMEs in Nigeria. Based on the outcome of data analysis, the study revealed a positive and significant relationship between price competitiveness and sales performance of food and beverage exporting SMEs in Nigeria ( $r = 0.828$ ;  $0.000 < 0.01$ ). To this end, it was concluded that price competitiveness has the capacity to attract customers to an organization that delivers value at a very competitive price in the marketplace.

### **Recommendations**

Based on the findings and the attendant conclusion, it was recommended that, Nigerian SMEs especially those exporting food and beverage products should consider the prices of their international competitors when fixing the prices for their products as this would enable them gain competitive advantage in price that will consequently increase their sales performance. Entrepreneurs in Nigeria particularly those exporting food and beverage products should maintain good relationship with their international customers by giving them adequate information about business developments, particularly necessary product information regarding usage and functionalities as this would surely build customers' trust and increase repeat patronage and sales turnover.

### **Suggestions for Further Studies**

The findings of this study are limited to issues regarding price competitiveness in the context of food and beverages exporting SMEs operating in South-South Nigeria. Therefore, there is need for further research in related area to be conducted in using other dimensions of value creating strategies.

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