

The Influence Of Pricing Strategy On Performance Of Low Cost Carriers In Kenya: A Case Study Of Jambojet Limited

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Abstract: The emergence and Low Cost Carriers (LCC) paved way for drastic change in the airline industry. Stiff competition across LCC forced traditional airlines to review their current business models to cater to the needs of the industry. The purpose of this study was to investigate the influence of strategic pricing on performance of low cost airlines in Kenya a case study of Jambojet. This study employed descriptive research that involved 95 employees working with Jambo Jet, a Low Cost Carrier. The sample for the study was drawn from five departments within the organization. Questionnaires were the key data collection tool and a pilot test was carried out to determine reliability and validity. Statistical Package for Social Sciences (SPSS) was used to manage and analyze the data collected. The study used regression and correlation analysis to measure the strength and significance of the relationship that existed between the independent and dependent variables. The results from the survey revealed that pricing strategies influenced the performance of Low Cost Carrier in Kenya. A correlation coefficient of 0.775 was found which indicated a strong relationship between the two variables. The research recommended more diverse investment in contemporary pricing models that create demand such as by operating many flight frequencies and further expansion of market to realize better returns.

Keywords: Low Cost Carriers, Pricing Strategy

I. INTRODUCTION

In the current airline business environment especially in Africa region Kenya being among them the concept of LCC is not new. However, because of various challenges that African airlines industry is facing, the growth of LCCs has not been steady over the past years. The concept of LCC was initially introduced in the seventies by the American domestic carrier, Southwest, as a strategy to make up for what was lost in decreased ticket prices. The objective of the LCCs by then was to open new routes and choose the airport in which to operate where they negotiated better agreements with the airports authorities such as discounts on airport charges, Ibeh (2013).

The low cost airlines popularly known as LCC have lower costs than the costs of their competitors otherwise known as full service carriers (FSC). Their business model is mainly characterized by product simplicity, low operating costs and a specific positioning, enabling them to offer lower prices to

their customers, without providing many of additional services such as food and beverages Klophaus, (2015).

Although no African Low Cost Carrier currently lists among the global best low-cost airlines as also borne out by the 2013 Sky Trax airline awards, the low-cost model is a specimen that continues an up-and-down movement for about two decades now in Africa. African governments levy very high taxes on airlines and also fuel a problem that resulted to the emerging of low cost airline model in the region according to Morrell, (2013).

A. ASE OF JAMBOJET

Jambojet is a Low Cost Carrier owned and operated by Kenya Airways Limited in Kenya and authorized to include in its flight destinations Burundi, Democratic Republic of Congo, Comoros, Madagascar, Ethiopia, Somalia, Tanzania, South Sudan, Uganda, Mayotte, and Rwanda. It began operations on

April 1, 2014 and hoped to attract more travellers who would have opted to use alternative means of transport such as roads, Morrell (2013). In the airline business maximisation of profits is usually as a result of revenue maximisation as most costs are fixed for the short run and changes in the long run. It is important to note pricing strategy is the key to airlines industry as it dictates the demand and supply, the customer base and the market share. For instance FSC opting to adopt price differentiations and discrimination technique of different fare categories that include offering discounted fares which would be subjected to seat availability. On the hand other LCCs pursue low cost leadership strategy with product simplicity with no additional services Kinnock (2014) that is low costs translates to low prices. The strategy aims to achieve low costs relative to competitors.

B. STATEMENT OF THE PROBLEM

Despite the sizable number of airlines operating in Kenya the country experienced poorly connected domestic air service in the recent years Hunter (2012). As a result of poor infrastructure, an incomplete rail network, unpaved roads and safety issues domestic tourism in the country while displaying general improvement but growing slowly. The low cost airlines in Kenya have continued to record poor financial performance and to lose market share to the full service carriers (FSC) despite the government of Kenya's efforts in providing an enabling environment by liberalization of the aviation sector where the low cost airlines have a leeway to carry out business without government stringent rules and giving tax incentives to the LCC to grow, The Economist (2014).

Many low-cost airlines in region have exited the market. In the region which is characterized by weak currency and high multiple taxes zone, as opposed to other developed regions. The high cost of operation makes it crucial for airlines to operate high volumes of traffic and consequently generate high revenues to offset costs to Elijah, Chingosho (2013). For instance Fastjet an LCC which commenced flights to Nairobi in 2015 was forced out the market hardly a year due to poor performance. Flamingo airlines started in 2000 and opted out in 2003 and many other examples.

A close look at the market opportunities for LCC in Kenya shows that the country has large unexplored territory for this business model due to its vastness, complexity, and diversity. Many studies have been conducted on LCCs but a gap exist which sought to answer the question of performance of LCC in Kenya. It was therefore important to undertake a study which sought to find out the strategic pricing influence on performance of LCCs in Kenya as part of the contribution to the strategic management of LCCs, Hunter (2012).

C. OBJECTIVES OF THE STUDY

The general objective of this study was to investigate the strategic factors influencing the performance of Low cost carriers (LCCs) in Kenya.

The specific objective was to determine the influence of strategic pricing on performance of LCCs in Kenya.

II. LITERATURE REVIEW

A. THEORETICAL FRAMEWORK

This study was anchored on the theory of the firm which was founded by MC Jensen in 1976, (Jensen, 1976). The theory states that firms or corporations exist and make decisions in order to maximize profits. Theory of the firm entails a number of economic theories that explain and predict the nature of the firm, company, or corporation, including its existence, behaviour, structure, and relationship to the market. The theory of the firm seeks to answer questions such as why this kind of firm emerged, the boundary between the firm and the market, why the firm was structured in such a specific way and finally what drove different actions and performance of the firm. The firm's behaviour in pursuit of profit maximization is analyzed in terms of what are the inputs, the production techniques, the quantity produced and the prices to be charged. This theory relates very well to prices charged by LCCs in that their prices tend to be low in comparison to FSC because of the use of internet tool to sell tickets reduces burden having to bypass travel agents which imposes commission that result to increased the cost of the ticket. Also LCC uses one type of aircraft and fly airport which are not busy thereby minimizing on costs resulting in cheaper ticket price.

Guided by government policies, businesses relate with the market to determine pricing and demand and then distribute resources according to models that seek to maximize profits. Therefore this theory was relevant to this study because it seeks to answer questions such as to how strategic pricing influenced the performance of LCCs. The theory of the firm considers what bounds the size and output variety of firms. This includes how firms would be able to combine labour and capital so as to lower the average cost of output which may result fair pricing and maximize revenue resulting higher returns and improved performance, (source).

B. CONCEPTUAL FRAMEWORK

Conceptual framework refers to concise description of the phenomenon under study accompanied by a graphical or visual depiction of the major variables of the study, Mugenda (2004).The researcher identified three antecedents of performance of LCCs that include market coverage, market share and customer base. The conceptual framework for this study, which presents the relationship between the independent variable (strategic pricing) and the dependent variable (performance of LCC) is depicted in figure 1.

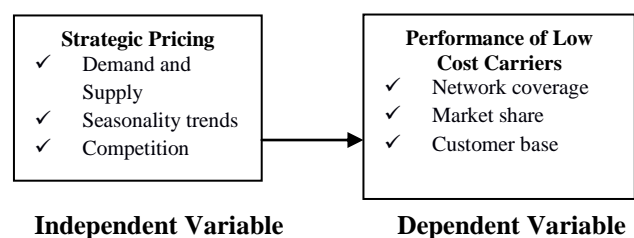


Figure 1: Conceptual Framework

III. RESEARCH METHODOLOGY

A. RESEARCH DESIGN

This study employed descriptive research design to investigate the influence of strategic pricing on performance of Low Cost Carriers in Kenya. The population for the study would comprise the employees of Jambojet. This was a finite universe of about 95 staff members working in five departments. The study adopted stratified sampling where the population was categorized into three strata so that the samples would proportionately representative of each stratum. The technique was ideal because it gave respondents at all levels equal opportunity to participate in the study without biased.

B. TARGET POPULATION

The target population for this study was Jambojet employees drawn from the departments of finance, human resource, commercial, marketing and operations. This group of employees was targeted because the specific roles they hold in relation to study area. The sample size was arrived at using the formula by Yamane cited in Kothari (2005). The formula relates sample size, the target population and the error margin as follows.

$$n = \frac{N}{1 + Ne^2}$$
 Where; n is sample size, N is target population size and e is the margin of error.

For this study, a margin of error of 5% will be used.

$$n = \frac{124}{1 + 124(0.05)^2} = 95$$

A sample size of ninety five respondents, representing 77% of the target population will be used in the study. This size was sufficient according Mugenda and Mugenda (2004) who suggested that a population is considered to be statistically significant when $n > 30$ and that a 10% to 30% of the total population was sampled. The sample was distributed in the five departments in ratios that were proportional to the number of employees. Structured questionnaires was administered by the researcher as the only data collection tool due to the fact the tool ability to gather facts from a large sample and it being concise and pre-planned hence saved time.

C. DATA ANALYSIS AND PRESENTATION

Descriptive statistics was used for analyzing the quantitative data. MS Excel also used to capture the data, while Statistical Package for Social Sciences (SPSS) software was used for the analysis. Appropriate inferential statistical tests were applied while distributions of variables were presented by means of histograms and/or frequency tables. Quantitative data from the study was analyzed with both descriptive and inferential statistics. Descriptive statistics such as frequencies, percentages mean and standard deviations would be utilized.

IV. FINDINGS OF THE STUDY

A total of 95 questionnaires were prepared and distributed to employees of Jambojet. Drop and pick method was used in the study and the respondents informed of the sole academic purpose of the research and confidentiality clause to enhance response rate. At the time of collection eighty questionnaires representing 84% were filled while the rest were not received. Work commitments and festive season may be linked to the small percentage (16%) of the sample which failed to respond. The response rate was summarized and presented in table 1.

Questionnaire	Number Administered	Number Completed	Percentage
Commercial Department	26	22	23
HR Department	12	10	10.5
Finance Department	14	10	10.5
Marketing Department	15	13	14
Operations Department	28	25	26
Total	95	80	84

Table 1: Response Rate from departments

A. DESCRIPTIVE STATISTICS

The respondents were asked to indicate the extent of agreement or disagreement with the statements relating to strategic pricing on LCC. The study findings revealed the following results as illustrated on table 2.

Strength	1	2	3	4	5		
Statement	SA	A	NI	D	SD	Mean	StD
Most of the tickets are sold directly through websites which saves commission costs on sales through travel agents	44	22	2	8	4	1.82	1.18
Smaller airports are less congested and enable a higher number of trips and aircraft utilization leading to cost reduction.	30	23	3	10	14	2.43	1.51
setting prices cannot rely on route planning alone to screen markets and to establish a strong competitive position	18	26	5	21	10	2.73	1.38
LCCs stay away completely from busy and expensive hubs that legacy carrier's use	11	15	7	27	20	3.37	1.39
Changes in price of an airline industry may also change the demand and elasticity of the services offered by the airline company	13	16	3	21	27	3.41	1.51
External environment of the airline industry can be described as very unstable as there are regular fluctuations	17	19	4	25	15	3.03	1.46
Fare pricing is considerably more complex than the relatively new fees airlines have been assessing	9	21	2	23	25	3.42	1.43

Key: SA- Strongly Agree, A-Agree, NI-No idea, D-Disagree, SD-Strongly Disagree and StD-Standard deviation

Table 2: The influence of strategic pricing on the performance of LCCs

In additions to the above the respondents highlighted other aspects which influenced strategic pricing as distributed on the below chart figure 2.

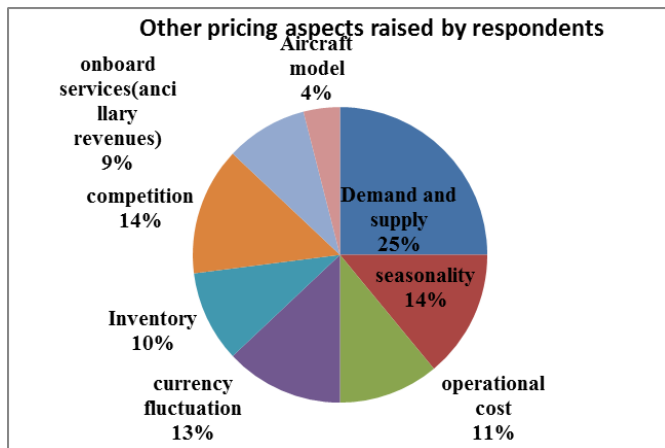


Figure 2: Other strategic pricing aspects raised by respondents

B. REGRESSION ANALYSIS

Regression analysis was carried out between strategic pricing and performance of LCC to reveal coefficient of correlation and coefficient of determination used in assessing the extent of relationship and degree of variability of the two variables. The analysis was performed using SPSS version 23 at 95% confidence level. The results were summarized and presented in table 3.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.775a	.601	.557	.045

a. Predictors: (Constant), supply and demand, seasonality trends, competition,
b. Dependent Variables: Network coverage, market share, customer base

Table 3: Pricing Strategy in relation to Performance of LCC

V. DISCUSSION

The findings revealed that pricing strategy influences the performance of LCC to a great extent. Based on the survey it was found out that the majority of the respondents (83%) strongly agreed that most of the tickets are sold directly through websites which saves commission costs on sales through travel agents. The regression analysis results obtained revealed a strong correlation between pricing strategies and performance of LCCs. A coefficient of correlation (R) was found to be 0.775. The coefficient of determination on (R square) was found to be 0.601 indicating that 60.1% variability in the performance of LCCs could be associated with strategic pricing. This confirmed a very significant relationship between pricing strategy and performance of LCCs. This study results concurred with research conducted by Doganis, (2010) which revealed that LCC has an advantage in terms of pricing strategy for it benefits from direct sales via the internet and payment through credit cards to the public which saves on the cost of the ticket.

VI. RECOMMENDATION

The results revealed Low Cost business model is closely linked to strategic pricing as its performance is based on low

fares to win customers who would have otherwise use alternative means. The research, consequently, recommends that Jambojet and other LCCs in Kenya should invest more on pricing models by creating demand and supply such as by operating many flight frequencies and expansion for better returns in terms revenue maximization. LCCs should capitalize on seasonal trends and adopt pricing strategy suitable for different seasons. In conclusion from the findings internet was the most preferred sales tool as many customers buy through internet. This is a great success especially in the region where customers are accustomed to buying via travel agents. It implies that Jambojet and other LCCs could employ the same strategy to market their brand of low cost strategy through the internet and gain more numbers and increase market share.

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