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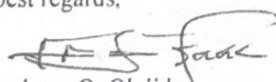
**Letter of Acceptance : AM - 19 - 002**

This is to inform you that your manuscript titled: *"Price Sensitivity and Consumer Buying Preference in Selected Courier and Logistic Companies in Kwara State Nigeria"* has been accepted after double peer review, for publication in "Advances in Management", a Journal Publication of the Department of Business Administration, University of Ilorin.

Please, be informed that your Paper will be published in the upcoming issue of June, 2020; Vol. 19 No. 1 subject to the payment of ₦20,000. We thank you for your interest in our publication.

Accept my congratulations.

With best regards,

  
Prof. Jackson O. Olujide  
Editor-in-Chief.

# PRICE SENSITIVITY AND CONSUMER BUYING PREFERENCE IN SELECTED COURIER AND LOGISTIC COMPANIES IN KWARA STATE, NIGERIA

By

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## ABSTRACT

*Price sensitivity places a premium on understanding the competition, the buying process and the uniqueness of products or services in the marketplace. The stiff competition observed from rendering the same service to customers in logistics companies has a great effect on pricing. Therefore, this study examined price sensitivity and consumer buying preference in a courier and logistic company. The objectives of the study was to examine the impact of price on consumer buying decision, evaluate the influence of delivery factors on customers' patronage and evaluate the relationship among factors influencing customers' buying preference. Survey research design was adopted for the study. The sample size for the study was one hundred and twenty (120) customers who intend to use or use express delivery service for shipment/packages/ documents in Ilorin. The findings of the study showed that price sensitivity has a significant effect on consumer buying preference in courier and logistic companies. The study recommended and suggested that management of courier services provider should endeavor to put in place measures that will influence customer buying preference for their products and services in order to gain top place in customers' preference list.*

**Keywords:** Price sensitivity, Consumer buying behavior, Competition, Service providers

## INTRODUCTION

Price setting and price getting require discipline, not luck. Companies differ substantially in their approach to price setting but most use one of these three strategies: cost-based pricing, competition-based (dynamic) pricing or value-based pricing. One of the hardest decisions an organization has to make is how to price its products and services. Price sensitivity is one of the key factors affecting companies pricing choices as well as its ultimate profitability. Nowadays, customers are well informed about product or service alternatives, product/service benefits, features, qualities and prices through advertising, family members, peer groups, opinion leaders, social networks, public information sources, and newspapers.

Customers are not too blind to buy a product or service without searching information about a product or service. Actually, consumers are sensitive to the prices because they want to get maximum benefits of using their money and time. Consumers are very rational to judge what they are getting from buying a product or service in exchange of their payments for it. Price sensitivity places a premium on understanding the competition, the buying process and the uniqueness of products or services in the marketplace. For example, consumers have lower price sensitivity if a product or service is unique or has few substitutes. Price is one of the determinant factors considered when a buyer chooses his or her product or service, choosing a particular logistic service provider is not an exception.

There are several courier and logistic service providers in Nigeria and each of them charges different price for their services which makes customer react sharply to the one that charges high or unaffordable price. Customer will definitely choose a courier service provider that

charges low prices for its services rather than one with high price. This price sensitivity by the buyers of such services is what this research seeks to find out as it affects sales and market share of such logistic service provider. Hence, in the course of the study, efforts will be made to find solutions to the following research questions;

- (i) To what extent does price affect consumers buying decision?
- (ii) To what extent do delivery factors influence customers' patronage?

The purpose of this study is to assess the price sensitivity and consumer buying preference for a courier and logistic service. Specific objectives were to:

- (i) examine the impact of price on consumer buying decision; and
- (ii) evaluate the influence of delivery factors on customers' patronage

The following hypotheses will be tested in the course of this research, which are:

**H<sub>01</sub>:** Price does not have any significant impact on customer buying decision

**H<sub>02</sub>:** Delivery factors do not have significant influence on consumers' patronage

## LITERATURE REVIEW

### Concept of Price

In the narrowest sense, price is the amount of money charged for a product or a service. More broadly, price is the sum of all the values that customers give up to gain the benefits of having or using a product or service. Historically, price has been the major factor affecting buyer choice. In recent decades, non-price factors have gained increasing importance.

However, price still remains one of the most important elements that determine a firm's market share and profitability. Price is the only element in the marketing mix that produces revenue; all other elements represent costs. Price is also one of the most flexible marketing mix elements. Unlike product features and channel commitments, prices can be changed quickly. At the same time, pricing is the number-one problem facing many marketing executives, and many companies do not handle pricing well. Some managers view pricing as a big headache, preferring instead to focus on other marketing mix elements. However, smart managers treat pricing as a key strategic tool for creating and capturing customer value. Prices have a direct impact on a firm's bottom line. A small percentage improvement in price can generate a large percentage increase in profitability. More importantly, as part of a company's overall value proposition, price plays a key role in creating customer value and building customer relationships. "Instead of running away from pricing," says an expert, "savvy marketers are embracing it."

### Factors that Affect Pricing Decisions

Beyond customer value perceptions, costs, and competitor strategies, the company must consider several additional internal and external factors. Internal factors affecting pricing include the company's overall marketing strategy, objectives, and marketing mix, as well as other organizational considerations. External factors include the nature of the market and demand and other environmental factors.

#### *The Internal Factors Affecting Pricing Decisions*

##### **- Overall Marketing Strategy, Objectives, and Mix**

Price is only one element of the company's broader marketing strategy. Thus, before setting price, the company must decide on its overall marketing strategy for the product or service. If the company has selected its target market and positioning carefully, then its marketing mix strategy, including price, will be fairly straightforward.

Pricing may play an important role in helping to accomplish company objectives at many levels. A firm can set prices to attract new customers or profitably retain existing ones. It can set prices low to prevent competition from entering the market or set prices at competitors' levels to stabilize the market. It can price to keep the loyalty and support of resellers or avoid government intervention. Prices can be reduced temporarily to create excitement for a brand or one product may be priced to help the sales of other products in the company's line.

Price is only one of the marketing mix tools that a company uses to achieve its marketing objectives. Price decisions must be coordinated with product design, distribution, and promotion decisions to form a consistent and effective integrated marketing program. Decisions made for other marketing mix variables may affect pricing decisions. For example, a decision to position the product on high-performance quality will mean that the seller must charge a higher price to cover higher costs. And producers whose resellers are expected to support and promote their products may have to build larger reseller margins into their prices. Companies often position their products on price and then tailor other marketing mix decisions to the prices they want to charge. Here, price is a crucial product-positioning factor that defines the product's market, competition, and design. Many firms support such price-positioning strategies with a technique called target costing. Other companies deemphasize price and use other marketing mix tools to create non-price positions. Often, the best strategy is not to charge the lowest price but rather differentiate the marketing offer to make it worth a higher price. Some marketers even position their products on high prices, featuring high prices as part of their product's allure.

Thus, marketers must consider the total marketing strategy and mix when setting prices. But again, even when featuring price, marketers need to remember that customers rarely buy on price alone. Instead, they seek products that give them the best value in terms of benefits received for the prices paid.

#### **- Organizational Considerations**

Management must decide who within the organization should set prices. Companies handle pricing in a variety of ways. In small companies, prices are often set by top management rather than by the marketing or sales departments. In large companies, pricing is typically handled by divisional or product line managers. In industrial markets, salespeople may be allowed to negotiate with customers within certain price ranges. Even so, top management sets the pricing objectives and policies, and it often approves the prices proposed by lower level management or salespeople.

In industries in which pricing is a key factor (airlines, aerospace, steel, railroads, oil companies), companies often have pricing departments to set the best prices or help others in setting them. These departments report to the marketing department or top management. Others who have an influence on pricing include sales managers, production managers, finance managers, and accountants.

#### **- Cost of Producing Goods or Services**

Cost set the floor or base for the price a firm can charge for its products for services. A firm may want to charge a price that will cover its cost of production or the cost of producing, distributing and as well as delivering a fair rate of return for its efforts and risks. A firm's cost may be an important element in its pricing strategy. For instance, many firms want to become a low cost producer in their industry. This is because; firms with lower cost can set lower prices that may result in greater sales and profit. Cost can be fixed (overhead) cost or variable cost. Fixed cost does not vary with the level of production and sales e.g. monthly bills, salaries while variable cost are costs that vary with the level of production and sales e.g. labor. The sum total of the two is referred to as Total cost.

Therefore, a firm must watch its cost carefully because if it costs the firm more than the competitor to produce and sell its products, the firm may want to charge high price or make less profit and this will put the firm at competitive disadvantage (Kotler & Armstrong, 1999).

#### ***External Factors Affecting Pricing Decision***

##### **- The Market and Demand**

As noted earlier, good pricing starts with an understanding of how customers' perceptions of value affect the prices they are willing to pay. Both consumer and industrial buyers balance the price of a product or service against the benefits of owning it. Thus, before setting prices, the marketer must understand the relationship between price and demand for the company's product. In this aspect, it is important to take a deeper look at the price-demand relationship and how it varies for different types of markets. There is also need to discuss methods for analyzing the price-demand relationship.

##### **- Pricing in Different Types of Markets**

The seller's pricing freedom varies with different types of markets. Economists recognize four types of markets, each presenting a different pricing challenge.

- a. *Pure competition*: the market consists of many buyers and sellers trading in a uniform commodity, such as wheat, copper, or financial securities. No single buyer or seller has much effect on the going market price. In a purely competitive market, marketing research, product development, pricing, advertising, and sales promotion play little or no role. Thus, sellers in these markets do not spend much time on marketing strategy.
- b. *Monopolistic competition*: the market consists of many buyers and sellers who trade over a range of prices rather than a single market price. A range of prices occurs because sellers can differentiate their offers to buyers. Sellers try to develop differentiated offers for different customer segments and, in addition to price, freely use branding, advertising, and personal selling to set their offers apart.
- c. *Oligopolistic competition*: the market consists of a few sellers who are highly sensitive to each other's pricing and marketing strategies. Because there are few sellers, each seller is alert and responsive to competitors' pricing strategies and moves.
- d. *Pure monopoly*: the market consists of one seller. The seller may be a government monopoly (the U.S. Postal Service), a private regulated monopoly (a power company), or a private non-regulated monopoly (DuPont when it introduced nylon). Pricing is handled differently in each case.

#### **Analyzing the Price-Demand Relationship**

Each price the company might charge will lead to a different level of demand. The relationship between the price charged and the resulting demand level is shown in the demand curve in Figure 1 below. The demand curve shows the number of units the market will buy in a given time period at different prices that might be charged. In the normal case, demand and price are inversely related that is, the higher the price, the lower the demand. Thus, the company would sell less if it raised its price from P1 to P2. In short, consumers with limited budgets probably will buy less of something if its price is too high. Understanding a brand's price-demand curve is crucial to good pricing decisions.

Most companies try to measure their demand curves by estimating demand at different prices. The type of market makes a difference. In a monopoly, the demand curve shows the total market demand resulting from different prices. If the company faces competition, its demand at different prices will depend on whether competitors' prices stay constant or change with the company's own prices.

## Consumer Buying Behavior

Consumers around the world vary tremendously in age, income, education level, and tastes. They also buy an incredible variety of goods and services. How these diverse consumers relate with each other and with other elements of the world around them impact their choices among various products, services, and companies. The aim of marketing is to meet and satisfy target customers needs and wants. The field of consumer behavior studies how individuals and organizations select buy, use, and dispose of goods, services, ideas or experiences to satisfy their needs and desires. Understanding consumer behavior and "knowing consumers" are never simple. Customers may say one thing but do another. They may not be in touch with their deeper motivations. They may respond to influences that change their mind at the last minute. Small companies and huge corporations stand to profit from understanding how and why their customers buy.

### METHODOLOGY

The population of the study is customers who intend to use or use express delivery service for shipment/packages/ documents in Ilorin, Kwara State (credit and cash/walk in customers) which consisted of Branch office customers i.e. key Account customers of the aforementioned courier and logistics service providers (Tranex, FedEx and DHL) and the walk -in customers of these organizations. The sample size for this research was one hundred and twenty (120) questionnaires. The technique of administering the questionnaire was divided into two parts considering the nature of the customers that have to do with the research. In stratum one, which is the credit Account customers of all the three case studies, twenty-five (25) questionnaires were administered within this section of customers which comprises of thirty-two customers (32). Secondly, is the walk-in or cash customers, these are the group of people that have a lot to do with this research. Preliminary investigation shows that Tranex courier has an average of forty (40) customers; FedEx courier has fifty-five (55) customers while DHL courier has sixty-five (65) customers. Therefore, for Tranex courier, only Twenty (25) customers were interviewed, for FedEx courier, thirty (30) customers were interviewed and lastly DHL, forty (40) customers were interviewed all on a random sampling method.

The primary data involved the administration of structured questionnaire to some selected respondents using likert scale. Descriptive and Inferential statistics such as percentage and regression analysis was used to analyzed the collated data with the aid of SPSS software package. The model used customer buying decision and consumers' patronage as dependent variables and Price and Delivery factors as the independent variables

The model is specified as:

**H<sub>01</sub>:** Price does not have any significant impact on customer buying decision.

$$CBD = \alpha_0 + \beta_1 PS + \beta_2 PP + e_i$$

Where:

CBD= Customer Buying Decision

PS= Price Skimming

PP= Price Penetration

e<sub>i</sub>= Residuals or Error term

**H<sub>02</sub>:** Delivery factors do not have significant effect on consumers' patronage.

$$CP = \alpha_0 + \beta_1 R + \beta_2 S + \beta_3 GR + \beta_4 T + \beta_5 S(FD) + e_i$$

CP= Customer Patronage

R= Reliability

S= Security

GR= Global Reach  
T= Transparency  
S(FD)= Speed (fast delivery)  
ei= Residuals or Error term

### TEST OF HYPOTHESES

This section addresses the objectives of the study through the formulated hypotheses using regression analysis.

**Hypothesis One: Price does not have any significant impact on customer buying decision**

**Table 1 Model Summary**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .806 <sup>a</sup> | .649     | .643              | .29997                     |

Predictors: (Constant), Price Skimming, Price Penetration

Source: SPSS printout, 2020

Table 1 above presents the model summary. It is observed from this table that  $R^2$  which is the coefficient of determination is approximately 65%. The implication of this is that about 65% of the systematic variation of the dependent variable (customer buying decision) can be explained by the independent variable indicators such as (Price Skimming and Price penetration), while the remaining 35% of the dependent variable (customer buying decision) may be affected and determined by other unexplained factors not included in the model. This model is considered fit as 0.65 is close to 1. This also implies that pricing policy adopted by courier and logistics companies has the capacity of determining 65% of the variations in customer buying decision.

**Table 2 ANOVA**

| Model        | Sum of Squares | Df  | Mean Square | F       | Sig.              |
|--------------|----------------|-----|-------------|---------|-------------------|
| 1 Regression | 19.464         | 2   | 9.732       | 108.159 | .000 <sup>b</sup> |
| Residual     | 10.528         | 117 | .090        |         |                   |
| Total        | 29.992         | 119 |             |         |                   |

a. Dependent Variable: Customer buying decision

a. Predictors: (Constant), Price Skimming, Price penetration

Source: SPSS printout, 2020

The F-statistic of 108.159 with corresponding probability value 0.000 showed that the model is statistically significant which means that the independent variable is statistically significant with degree of freedom (2, 117) at 0.05 alpha level to explain the dependent variable, thus the overall model is fit. Also, the regression sum of squares of 19.464 is greater than the residual sum of square of 10.528, hence the null hypothesis is rejected and the alternative hypothesis is accepted. This implies that at least one of the predictors has impact on customer buying decision. The implication of this is that, as a single variable element, a particular explanatory variable element may not be significant enough to have effect on customer buying decision,

but when it is combined with other variables, they can jointly affect customer buying decision. This can be seen in the coefficients table 3.

**Table 3 Coefficients**

|       |                   | Coefficients <sup>a</sup>   |            |                           |        |
|-------|-------------------|-----------------------------|------------|---------------------------|--------|
| Model |                   | Unstandardized Coefficients |            | Standardized Coefficients | Sig.   |
|       |                   | B                           | Std. Error | Beta                      |        |
| 1     | (Constant)        | 6.180                       | .257       |                           | 24.089 |
|       | Price Skimming    | .176                        | .031       | .319                      | 5.667  |
|       | Price penetration | -.536                       | .045       | -.671                     | 11.918 |

a. Dependent Variable: Customer buying decision

**Source:** SPSS printout, 2020

Based on Table 3 above, the coefficients of individual independent variables indicated that Price Skimming (.176) has a significant impact as a proxy of price on Customer buying decision. Further, the {probability} and t-statistic value of {.000} and -5.667 respectively further suggest that the relationship between price skimming and customer buying decision is significant since alpha level of 0.05 is greater than the p-value of .000. The conclusion therefore is that price skimming has a significant impact on customer buying decision. Furthermore, the coefficient of price penetration which is -.536 implies that price penetration has a significant impact on customer buying decision. Considering its p-value of .000, it is significant since alpha level of 0.05 is greater than the p-value. The implication of this to the study is that courier and logistics companies pricing policy influences their customer buying decisions.

**Hypothesis Two: Delivery factors do not have significant effect on consumers' patronage.**

**Table 4 Model Summary**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .749 <sup>a</sup> | .561     | .541              | .28398                     |

a. Predictors: (Constant), Reliability, Security, Global Reach, Transparency, Speed (fast delivery)

**Source:** SPSS printout, 2020

Table 4 above presents the model summary. It is observed from the table that  $R^2$  which is the coefficient of determination is 56.1%. This means that about 56.1% of the systematic variation of the dependent variable (consumers' patronage) can be explained by the independent variable indicators (Reliability, Security, Global Reach, Transparency, Speed [fast delivery]), while the remaining 43.9% of the dependent variable (consumers' patronage) may be affected and determined by other unexplained factors not included in this model. This model is considered fit as 0.561 is close to 1. The implication of this is that the reliability, security, global reach, transparency, speed [fast delivery] is a determinant of up to 56.1% of the changes on consumers' patronage.

Table 5 ANOVA

| ANOVA <sup>a</sup> |                |     |             |        |                   |
|--------------------|----------------|-----|-------------|--------|-------------------|
| Model              | Sum of Squares | Df  | Mean Square | F      | Sig.              |
| 1 Regression       | 11.732         | 5   | 2.346       | 29.095 | .000 <sup>b</sup> |
| Residual           | 9.193          | 114 | .081        |        |                   |
| Total              | 20.925         | 119 |             |        |                   |

A. Dependent Variable: Consumers' Patronage

Predictors: (Constant), Reliability, Security, Global Reach, Transparency, Speed (fast delivery)

Source: SPSS printout, 2020

The F-statistic of 29.095 with corresponding probability value 0.000 showed that the model is statistically significant which means that the independent variable is statistically significant with degree of freedom (5, 114) at 0.05 alpha levels to explain the dependent variable, thus the overall model is fit. Also, the regression sum of squares of 11.732 is greater than the residual sum of square of 9.193, hence the null hypothesis is rejected and the alternative hypothesis is accepted. This implies that at least one of the predictors has effect on consumers' patronage. The implication of this is that, as a single variable element, a particular explanatory variable element may not be significant enough to have effect on consumers' patronage, but when it is combined with other variables, they can jointly affect consumers' patronage. This can be seen in the coefficients table 6.

Table 6 Coefficients

| Coefficients <sup>a</sup> |                             |            |                           |        |      |
|---------------------------|-----------------------------|------------|---------------------------|--------|------|
| Model                     | Unstandardized Coefficients |            | Standardized Coefficients | T      | Sig. |
|                           | B                           | Std. Error | Beta                      |        |      |
| 1 (Constant)              | 5.476                       | .354       |                           | 15.462 | .000 |
| Reliability               | .140                        | .032       | .298                      | 4.322  | .000 |
| Security                  | -.165                       | .024       | -.432                     | -6.793 | .000 |
| Global Reach              | -.035                       | .068       | -.040                     | -.516  | .607 |
| Transparency              | -.231                       | .044       | -.437                     | -5.226 | .000 |
| Speed (fast delivery)     | -.004                       | .056       | -.005                     | -.073  | .942 |

a. Dependent Variable: Consumers' Patronage

Source: SPSS printout, 2020

Based on Table 6 above, the coefficients of individual independent variables indicated that reliability (.140) has a significant effect as a proxy of delivery factors on consumers' patronage. Further, the probability and t-statistic value of {.000} and (4.322) respectively further suggest that the relationship between reliability and consumers' patronage is significant since alpha level of 0.05 is greater than the p-value of .000. The conclusion therefore is that reliable services of courier and logistic companies have a significant effect on consumers' patronage.

Also, security which has a coefficient of  $-.165$  means that its usage as a proxy for delivery factors has a significant effect on consumers' patronage. Also, its p-value of  $.000$  and t-statistic value of  $-6.793$  further suggest that its relationship with consumers' patronage is statistically significant since alpha level of  $0.05$  is greater than the p-value. This implies that the security measures adopted by courier and logistics companies in delivery process is a great determinant that affects consumers' patronage as most customers always wants to patronize a safe and secure courier and logistics company.

Furthermore, transparency which has a coefficient of  $-.231$  means that its usage as a proxy for delivery factors has significant effect on consumers' patronage. Also, its p-value  $.000$  and t-statistic value of  $-5.226$  further suggest that its relationship with consumers' patronage is statistically significant since alpha level of  $0.05$  is lesser than the p-value.

On the contrary, global reach which has a coefficient of  $-.035$  means that its usage as a proxy for delivery factors has no significant effect on consumers' patronage. Also, its p-value  $.607$  and t-statistic value of  $-.516$  further suggest that its relationship with consumers' patronage is statistically not significant at  $0.05$  alpha level. In the same vein, speed (fast delivery) with its p-value  $.942$  and t-statistic value of  $-.073$  implies that its relationship with consumers' patronage is statistically not significant at  $0.05$  alpha level.

## DISCUSSION OF FINDINGS

The analysis of the first hypothesis revealed that price has a significant impact on customer buying decision. It was observed from the findings that the impact of price which includes price skimming and price penetration affects the buying decision of courier and logistics company customer. It was observed that  $61.9\%$  of the variation and trends in customer buying decision can be explained by price. This is almost in tandem with the citation of Varki, Sajeew and Mark Colgate, (2001) who noted that correct management of customers' price perception can lead to improved value perception of the products and increased willingness to buy.

Furthermore, the second hypothesis revealed that delivery factor has a positive effect on consumers' patronage. It was discovered from the findings that approximately  $56.1\%$  of the systematic variations present in consumers' patronage can be explained by factors such as reliability, security, global reach, transparency, speed (fast delivery). Hence Delivery factors explained approximately  $56.1\%$  of the variation and trends in consumers' patronage. This is in line with the submission of Steven et al. (2012) who notes that delivery factors always lead to high profits because consumer makes repeat purchases.

## CONCLUSION AND RECOMMENDATIONS

From the findings, the following conclusions were made:

The first objective of the study was to examine the impact of price on consumer buying decision. The r-squared coefficient value of  $0.649$  depicted that price maintains  $64.9\%$  relationship with customer buying decision. All the proxies of price which are price skimming and price penetration were all found to be statistically significant because their probability values were less than  $0.05$ . From the findings, the study therefore concluded that courier and logistics companies pricing policy influences their customer buying decisions.

The second research objective was to assess the effect of delivery factors on customers' patronage. The r-squared coefficient value of the model of  $0.561$  showed that delivery factors maintain  $56.1\%$  relationship with customer patronage. Looking at the proxies of delivery factors (reliability, security, and transparency) were statistically significant which were because their probability values were less than  $0.05$  which is the alpha value except (global reach and speed delivery) which were not statically significant because their probability value were greater than  $0.05$  which is the alpha value. The study therefore concluded that buying

decision of courier and logistics companies' customer is affected by few delivery factors and not all delivery factors.

Finally, the third objective of the study was to determine the relationship between customer buying factors and customer buying preference. The R-value of 0.818 showed that customer buying factors have positive correlation of 81.8% with customer buying preference of courier and logistics companies and this is statistically significant because the probability values were less than 0.05 which is the alpha value. The study therefore concluded that there is significant relationship between customer buying factors and customer buying preference in courier and logistics companies.

Based on the findings, the following recommendations were made:

- i. Customers take price as the utmost factor in making buying decision of any product. Therefore, price of services rendered by courier service companies should be reviewed favorably to attract huge patronage from potential customer.
- ii. Standard and advanced policies in terms of delivery services mostly can be considered over price by most customers and this might retain their patronage. Therefore, courier services provider should give various delivery factors a high priority.

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