

# Discount Pricing in Soft Drink Industry: A Study of Leading Soft Drink Company

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## Abstract

This paper is based on the study of various factors which influence the amount of discount to be given to the retail outlets to increase loyalty and gain monopoly in the market. This discount is different from the normal discount given to the customers rather this discount is the discount given to the High Value Outlets (HVO's) by leading market players. This paper considers the influence of various marketing and demographic factors on the amount of discount to be given to the retail outlets. Factor analysis is used to analyze the data taken on a random basis. This study tries to reflect the influence of various factors like brand recognition, availability, competitors and location. This study will help companies to select effective models for targeting retail outlets with an aim to gain their loyalty.

**Keywords:** Discount Pricing, High Value Outlets, Retail Discounting, Soft Drink Industry

## 1. Introduction

A company earns revenue by charging a price from buyers. Price is the value that the company expects to get from customers in return of the product or the service the company is providing to the customer. Price is what the company gets back in return for all the effort that it puts into manufacturing and marketing the product. The other three element of the marketing mix i.e. product, promotion, and place incur cost. If price does not cover the cost, the company will make a loss both undercharging and overcharging will have detrimental effect on profitability. Price should not be treated in isolation. It should be blended with other elements of the marketing strategy to form a coherent mix that provides superior customer value.

Companies usually do not set a single price, but rather a pricing structure that reflects variation in geographical demand and cost, market segment timing, Purchase timing, order levels, delivery frequency, guarantees, service contracts and other factors. As a result of discount, allowances and promotional support, a company rarely realizes the same profit from each unit of the product that it sells.

Discount pricing is one of the pricing strategies adapted by most companies wherein these companies adjust their list price and give discount and allowances for early payment, volume purchases, off- season buying and gaining monopoly in the market. The decision of when and what type of discounting will vary greatly with the type of merchandise, the amount of competition and the stock on hand. Companies must do this carefully or find that their profits are much less than planned.

Discount pricing has become the modus operandi of a surprising number of companies offering both product and services. These discounts can be in one of the following form:

### 1.1 Quantity Discount

A price reduction to those who buy in large volume. Seller justify these discounts on the ground that large orders reduce selling expenses and may shift some cost for storage.

### 1.2 Cumulative Quantity Discount

A discount that increases as the cumulative quantity increases. Cumulative discounts may be offered to

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resellers who purchase large quantities over time but who do not wish to place large individual orders.

### 1.3 Seasonal Discount

A price reduction to those who buy merchandise or service out of season they are designed to reduce seasonal variation in sales. For example, the travel industry offers much lower off-season rates. Such discounts do not have to be based on time of the year; they also can be based on day of the week or time of the day.

### 1.4 Cash Discount

A price reduction to customers who pay their bill before a specified date. the cash discount benefit the seller because they increase the chance that a buyer will pay quickly, therefore providing the seller with cash more quickly.

### 1.5 Trade Discount

A functional discount offered to channel members for performing their roles. For example, a trade discount may be offered to a small retailer who may not purchase in quantity but nonetheless performs the important retail function.

### 1.6 Promotional Discount

A short-term discounted price offered to stimulate sales. These include an allowance for creating and maintaining an in-store display or a co-op advertising allowance.

Questions one should ask before determining amount of discount given to retail outlet include:

- How much do the competitors charge?
- How much are customers willing to pay?
- What is the cost to produce the product?
- And if you slash prices (below competition), how will you maintain profitability?

### 1.7 The Major Factors Influencing the Amount of Discount Given

This paper tries to find out the certain relationship that exist between the amount of discount given to the HVO's (High Value Outlets) and the variables which help to determine the amount of discount to be given. As the no of variables is large and this wouldn't be possible to create a model which can quickly define the amount of discount to be given to the HVO so in this paper we will take a look at how these variables are converted into feasible amount

of factors which can help in determining the amount of discount to be given to the outlets.

## 2. Research Design

The design used in this paper is Conclusive Descriptive as the paper seeks to find certain relationship among variables, which led to decide the amount of discount to be given. For that primary collection of data through a formal and structured survey is done.

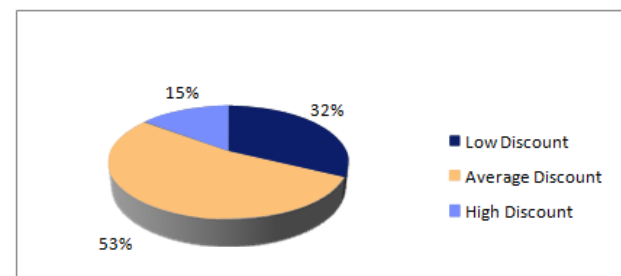
## 3. Data Collection

Primary data has been collected through questionnaire method which was done through a survey. The survey was conducted on information of 50 outlets in Jaipur. Purposive sampling was done considering outlets from different regions to get a variety of data. So the sample size reduced to 50 respondents. COKE HVO'S formed the base of survey respondents. Questionnaire was designed in such a way to find out the various factors which affect the amount of discount to be given to various outlets. Each question having 5 options which were assigned a value ranging from 1 to 5 (i.e. less to high discount). After getting all responses we calculated the final score of each respondent and classified them as Table 1.

**Table 1.** Score of respondents

Score	Classification
0 to 30	Less discount
31 to 45	Average discount
46 to 75	High discount

On the basis of above mentioned classification we got discount awarded of outlets which is shown by the following pie chart



**Figure 1.** Discount given.

The pie chart shows here the break-up of outlets in three different categories. The respondents are divided into three categories according to their scores. From the chart we can see that maximum of our respondents fall in the category of average discount i.e. 53%. 16 outlets are falling in low discount category which constitutes 32% of sample size. Remaining 15% of the outlets come in high discount category (Figure 1).

## 4. Application of SPSS

The process started off with the questionnaire to identify the same number of variables which affects discount decision but it's hard to analyze each factors for every outlet at a time so we need some reduced number of factors which can completely define all these factors and thereby can make feasible to analyze and determine the amount of with the help of these factors. That is why a factor analysis is considered to be the appropriate test to reduce these sample variables by combining them into some factors based on the correlation among these variables. When factor analysis was done we came down to four factors. With the reduction of factors we could get an idea of key factors or components in the context of decision making when it comes to deciding the amount of

discount, which have been tabulated in the factor analysis interpretation.

## 5. Factor Analysis

Study was started with 15 variables which influence the decision making of the amount of discount but to reduce the data complexity and to determine the exact factor's which drives the company decision factor analysis was done. Factor analysis resolved the confusion of what factor influence the investing behavior of the investor. Results which came out of factor analysis are given below

**Table 2.** KMO and Bartlett's test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.852
Bartlett's Test of Sphericity	Approx. Chi-Square	311.269
df		105
Sig.		.000

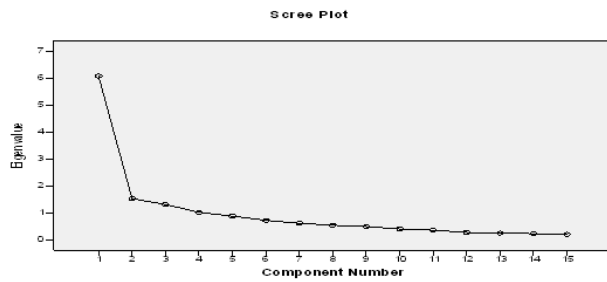
The Kaiser-Meyer-Olkin measure of sampling adequacy tests whether the partial correlations among variables are small. Bartlett's test of sphericity tests whether the correlation matrix is an identity matrix, which would indicate that the factor model is appropriate

**Table 3.** Total variance explained

Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	6.081	40.539	40.539	6.081	40.539	40.539	3.574	23.828	23.828
2	1.535	10.233	50.772	1.535	10.233	50.772	2.337	15.579	39.407
3	1.317	8.783	59.554	1.317	8.783	59.554	2.211	14.740	54.147
4	1.027	6.850	66.404	1.027	6.850	66.404	1.839	12.257	66.404
5	.886	5.904	72.308						
6	.730	4.868	77.176						
7	.620	4.132	81.308						
8	.547	3.648	84.956						
9	.499	3.327	88.283						
10	.410	2.732	91.016						
11	.363	2.421	93.437						
12	.281	1.876	95.313						
13	.257	1.713	97.027						
14	.234	1.562	98.589						
15	.212	1.411	100.000						

Extraction Method: Principal Component Analysis.

## 5.1 Eigen Value of Various Components



**Figure 2.** Eigen value chart.

This gives us the graphical presentation of components and their Eigen value

**Table 4.** Rotated component matrix

	Component			
	1	2	3	4
City	0.822			
Population	0.805			
Income	0.710			
Distance	0.653			
Comp. performance		0.545		
Comp.product		0.532		
Awareness		0.891		
Others		0.750		
Past performance				0.642
Terms			0.822	
Vpo			0.572	
Monopoly-outlet-present			0.551	
Revenue				0.815
Year				0.596
Area	0.532			0.545

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization. A rotation converged in 6 iterations

## 6. Process Followed

Firstly factor analysis was conducted on the data collected. The initial findings on KMO statistic and Bartlett's Sphericity Test were good. As shown in the Table 2 KMO was nearly 0.85 and the Bartlett's Sphericity was significant. It strengthened our decision to use factor analysis as our statistical method. In the second step we have matrix which provides the Eigen value and their respective variance based on that we came out with 4 variances which have Eigen values greater than '1' and the cumulative variance 66.404%. This is a pretty good bargain, to economize on the number of variables (from 15 we have reduced them to 4 underlying factors), while we lost only about 33% of the information content.

In the third step we have rotated component matrix which provides us the loadings associated with the variables thus we found which variable is associated with which of our final variable. Now our final task is to determine what these 4 extracted factors represent. This is done by looking at the factor matrix and the rotated factor (component matrix). For that our task is to find a suitable phrase which captures the essence of the original variables which continue to form the underlying concept or factor.

In this case, the factors which we named are location, amount of monopoly given to product outlet performance, and competition. Following Table 5 shows the variables which we combined in these factors-

## 7. Conclusion

Why do manufacturers initiate Discounts? They do so for a variety of reasons. They may want to counter the

**Table 5.** Factor extracted

Location	Amount of Monopoly given to product	Outlet performance	Competition
City	Terms	Revenues	Competitors performance
Population	Class according to monopoly	Years	Competitors product
Income	Complete monopoly outlets present in that area	Past performance	Awareness comp.
Distance			Other beverages
Area			

popularity of lower-priced store brands. They may wish to encourage retailers to pass discounts on to consumers who are especially price sensitive. Sometimes they simply have a lot of inventory that they need to pass down the channel. At other times, they may hope to increase brand awareness or get consumers to try their product once — so they'll come back for more later. The key in this process is shifting the terms of the promotions so that retailers continue to benefit but not at the expense of manufacturers.

Discount pricing is one of the important strategies used by the major players of soft drink industry and location, amount of monopoly given to product, outlet performance, and competition are important factors which determine the amount of discount to be given to the High Value Outlets (HVO's). Thus we can say that these factors can be used to build a model with the help of which a company can decide the optimal amount of discount to be given to any outlet which will further help in simplifying the things and can help in improving the performance of any company.

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