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Effect of Low Pricing Strategy on New Entrants in the Telecommunication Industry, Nigeria

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Abstract:
The study examines the effect of low pricing strategy on new entrants in Nigeria's telecommunication industry. The study used an online survey research design due to the covid-19 pandemic, Purposive sampling as a sampling method was used to draw the sample size of 30 from the targeted population. The respondents were sales managers of MTN, GLO, Airtel and Nine-Mobile telecommunication regional offices in Abuja. The method of data collection was a questionnaire. The statistical tool adopted was a simple regression. The findings showed that there is a strong relationship between the effect of low pricing on new entrants in the telecommunication industry in Abuja. The recommendation was for telecommunication companies in Nigeria to perceive low pricing strategy as a new entrant barrier, reduce data and airtime costs to gain more market share.

Keywords: *New entrants, low pricing strategy, telecommunication industry*

1. Introduction

Barriers to entry is a popular topic of interest for researchers since Bain (1956). Barriers prevent entrant firms from making their move or gaining a fair share in a market (Porter, 1980). These barriers represent the disadvantages that entrants face relative to incumbents, and they decrease the likelihood and speed with which potential competitors can enter markets (Shepherd, 1979). Stating it in a slightly different way, Porter (1980a) emphasizes that barriers to entry provide existing firms with inherent advantages over potential new entrants. Nonetheless, we have only a little understanding of the practical and theoretical knowledge of the subject, we have limited understanding of the impact of barriers on market strategy of an entrant firm. Industries such as telecommunications are subject to these issues (Pehrsson, 2001).

Pehrsson (2001) observed that deregulation in the telecommunications industry has generated a lot of capital, the environment has stimulated innovativeness and product differentiation. Advantages of incumbent companies have established earlier than their competitors to the extent of raising their prices above a theoretical equilibrium without attracting other companies to enter the industry (Bain, 1956). It is therefore appropriate to see barriers as established companies' reactions to new entrants (Karakaya and Stahl, 1989; Yip, 1982). In fact, incumbents may discourage the entry of newcomers simply by creating expectations of perceived differences on the new entrants (Karakaya and Stahl, 1989). To be able to outperform competitors and reduce new entrants so as to achieve above average profit falls in the determination and execution of an appropriate strategy (Yoo, Lemak & Choi, 2006).

The objective of this paper is to examine low pricing strategy and its effect on new entrants in the Nigerian telecommunication industry.

1.1. Hypothesis

- H_{01}: Low pricing strategy has no significant effect on new entrants in Nigerian Telecommunication Industry

2. Literature Review

The term 'barriers to entry' refers to obstacles that firms have to face when they try to establish themselves in a market (Porter, 1980). it has two types of categories: exogenous and endogenous. Exogenous barriers to entry are embedded in the underlying market conditions, and are not under the existing company's control. Endogenous barriers are created and maintained by established, competing firms. These barriers are created by incumbent companies' competitive behavior to accomplish their market strategies. Important endogenous barriers often originate from excess capacity. This is usually accompanied by pre-emptive pricing leading to price competition (Guiltinnan and Gundlach, 1996; Simon, 2005).

2.1. Exogenous Barriers

Porter (1980b) used the concept of barriers to entry in developing a framework by which firms can analyze industries and competition to develop corporate strategies. He proposed six major sources of barriers:

- Cost Advantages Incumbents often have cost advantages that cannot be replicated by new entrant. These include factors like expertise or training high-end technology, access to raw materials, pleasant locations and government subsidies.

- Product Differentiation: This forces entrants to spend heavily to overcome these loyalties. Startups tend to bring different products to the market, but benefits must be transparent and communicated to target customers. New entrants must find effective positioning which usually requires marketing tools or resources beyond their means.
- Capital Requirements Funds that are required for infrastructure, machinery, R&D and advertising. New entrants might acquire capital requirements by outsourcing some parts of the operation to other companies that can leverage investments.
- Access to Distribution Channels This tends to be a barrier if logical, effective and functioning distribution channels have been locked up by incumbents.
- Government Policies Governments can limit or prevent entry to industries with various controls (for example, licensing requirements, limits to access to raw materials). new entrants in highly regulated markets will find that incumbents have fine-tuned their business according to regulation. Porter, M. (1998).
- Customer Switching Costs: one-time costs buyer faces when switching from an existing supplier's product to a new entrant

2.2. Endogenous Barriers

These barriers are created by the behavior of established firms, as in the creation of:

2.2.1. Economies of Scale

It occurs when the unit cost of a product declines as production volume increases. When competitors in an industry achieve economies of scale, it acts as a barrier by forcing new entrants to compete on a large scale or accept a cost disadvantage to compete on a small scale. Other number of cost advantages held by existing competitors that act as barriers to market entry when they cannot be duplicated by new entrants are High-end technology, pleasant locations, government subsidies, access to raw materials, expertise. If a market has significant economies of scale that have already been exploited by the existing company, new entrants are discouraged.

2.2.2. Increased Promotional Activity

Advertising is expensive to most new entrants. The higher the amount spent by incumbent companies, the more discouraged a new entrant is likely to be. also, a strong brand value creates loyalty of customers and can discourage new companies.

2.2.3. Preemptive Pricing (Limit Pricing)

This means a company set a low price, and a high output, so that entrants cannot make a profit at that price. This is best achieved by selling at a price just below the Average Total Cost (ATC) of potential entrants. This signals to potential entrants that profits are impossible to make.

2.2.4. Predatory Pricing and Acquisition

A company may deliberately lower prices to get rivals out of the market. They could also take over a potential rival by purchasing sufficient shares to gain a controlling interest of the market, or a complete buy-out deliberate to create barriers. Regulators, like the government may prevent this by creating policies as it would reduce competition.

2.2.5. Switching Costs

These are costs experienced by a customer when switching suppliers. They involve costs of purchasing or installing new equipment, loss of service during the switching process, and the effort involved in searching for a new supplier or learning a new system. These are common when switching energy suppliers, banks, TV and telephone suppliers etc. Entry is thus unattractive to the potential market entrant (Burgess, 1989, pp 170-171). While these are usually structural in nature they are mostly referred to as strategic barriers since they are understood and exploited by suppliers. Needham (1976) and Yip (1982b) refer to barriers of this type as existing firms' expected reaction to new entrants.

2.3. Telecommunication Industry in Nigeria

The development of telecommunication facilities in Nigeria started in 1886. A cable connection was established between Lagos and London by the Colonial administration (Adegboyega, 2008). It was originally developed as a tool for colonial subjugation not as a means of enhancing economic growth. Salawu (2008) stated that between independence in 1960 and 1985, telecommunication service became commercialized. Nigerian telecommunication industry witnessed a paradigm shift in 2001, granting the global system for mobile telecommunication (GSM) license to providers. The current role calls of GSM operators consist of MTN, Airtel, Glomobile, Nine Mobile, Visafone, Nitel's M-tel, Multi-Links, Starcoms among others.

Telecommunication industry in Nigeria in the last ten years has recorded unprecedented growth and development. According to NCC, The country's telecommunication industry was the largest contributor to growth in 2012, expanding by 34.2 percent. Telecoms as a percentage of GDP was 7.05 percent in 2012, higher than financial services and manufacturing sectors (Business Day, 2013). There was a great accomplishment in qualities and different types of services provided to customers. Deregulation of the industry led to the increased number of new entrants in the industry and in the numbers of subscribers or customers. It led to competition between the providers, they pursued strategies that could

enable them to have a huge part of the market-share in order to be profitable, reduce the threat of new entrants and to survive. The industry is therefore becoming more competitive than before.

3. Research Methods

Online survey research design was chosen due to the Covid-19 pandemic and primary data was collected by questionnaire. The questionnaire was developed to determine the effect of low pricing strategy on new entrants in telecommunication companies. 30 managers were recommended as respondents for the study due to the population of managers in the Abuja regional office (Sakaran, 2010). The following numbers of respondents were selected from respective telecommunication companies; MTN 12, Airtel 6, Globacom 8 and Nine-Mobile 4. These are four (4) major telecommunication companies because they provide UMTS and LTS to about 98 per cent phone users in Nigeria. Only 25 were filled completely and found usable for the study while the remaining 5 questionnaires were rejected due to incompleteness and to make sure data does not contain any outliers. Data were analyzed using simple regression.

4. Data Analysis and Interpretation

It was observed that all four major telecommunications companies use the same low pricing strategies, but the success of the strategies is different.

Model	R	R square	Adjusted R Square	Std. Error of the Estimate	Correlation
1	.678[a]	.46	.437	.839	.678

Table 1: Model Summary of the Simple Regression for Effect on New Entrants
a. Predictors: (Constant), Low Pricing
b. Dependent Variable: Effect on New Entrants

Model	df	F	p-value
Regression	1	19.592	0

Table 2: ANOVA

- H_0: low pricing strategy has no significant effect on new entrants in Nigerian Telecommunication Industry

Table1 above indicates the model summary of the simple regression equation that predicted effect on new entrants. The standard error of estimate indicates that, on average, observed effect on new entrants deviates from the predicted regression by a score of 0.839.

R Square equals 0.46. which means 46% of variability of Effects on New Entrants is explained by Low pricing strategy. Correlation (R) equals 0.678. which means there is a strong direct relationship between low pricing strategy and its effect on new entrants. The value of the intercept indicates that the value of effect on new entrants when the explanatory variable is 0 = 2.327.

Since p-value < a (0.05), we reject the null hypothesis and agree that low pricing has an effect on new entrants in Nigerian telecommunication industry.

5 .Conclusions and Recommendations

The study focused on the effect of low pricing strategy on new entrants in Nigerian telecommunication industry. The study establishes the importance of each of the strategies for new entrants in telecommunication performance despite challenges facing the industrial business environment. Since their establishment, the four major telecommunication companies had made significant profit from their investment. But despite all the efforts made through the provision of competitive strategies to gain competitive advantage, some telecommunication company managers have not utilized low pricing strategy as a tool against new entrants. Most of them still rendered epileptic services to their customers in spite of their huge amount of charges. Telecommunication companies embarked on a series of competitions among themselves in order to cover the most market and get the most market share, reduce threat of new entrants and make abnormal profit. The study recommends that telecommunication companies should focus on low pricing strategies towards reducing the threat of new entrants in the industry. This study provides a useful basis upon which further studies in the industry could be conducted. There is a need to undertake similar studies in other sectors to ascertain how different sectors deal with the effect of low pricing strategies on new entrants. The study also contributes to the existing literature in the area of low pricing strategy that academicians could use as a basis of further research.

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