ANALYSIS OF THE FACTORS AFFECTING PRICING STRATEGIES OF SELECTED CONSUMER GOODS IN THE RETAIL MARKET : A CASE STUDY OF SUPERMARKETS IN NAIROBI, KENYA.

BY

MUNYOKI, J.M.

(SUPERVISED BY DR. PETER K`OBONYO)

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DECLARATION

This project is my original work and has not been presented for a degree in any other university.

29th September, 1997

Justus M. Munyoki

Date

This project has been submitted for examination with my approval as University Supervisor.

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Dr. Peter K'Obonyo
Senior Lecturer,
Faculty of Commerce

Date

DEDICATION

To my parents, Mr. Munyoki Nzola and Mrs. Ngami Munyoki and uncle Mr. Godfrey Ikanda, for their great sacrifice in educating me.

To my wife Angelina Sabina and children, without whose love, sacrifice and encouragement I could not have gone this far.

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ABSTRACT

This study sought to investigate the factors affecting pricing strategies of selected consumer goods in the retail market. The study was limited to supermarkets located in Nairobi, and had two objectives, namely

1. To identify the factors that affect pricing strategies.
2. To analyze how prices vary with the age, size and the perceived consumer buying behaviour.

To achieve the objectives, a semi-structured and undisguised questionnaire was developed in order to obtain data to fulfill the first objective, while price variations of four selected consumer goods were observed over the study period for all the 22 supermarkets studied, in order to get data for the second objective. The basis for selecting the consumer goods were their relative availability and variability, so that the four were those with the highest availability and variability, from an initial ten items.

The supermarkets were categorised on the basis of three factors, namely the age, size and location, in order to permit comparisons along these lines.

Results indicated that competition was the most important factor affecting pricing strategies, followed by handling and selling costs, and demand consideration, respectively. The importance of these factors was also found to vary according

to the age, size and location of the supermarket. Although supermarkets were found to be sensitive to the perceived consumer buying behaviour as during special occasions such as christmas, they concentrated more on satisfying the anticipated high demand rather than adjusting the prices, although special offers were quite common.

The study also found that most of the known pricing strategies are applied at varying degrees among the supermarkets, depending on their age, size or location.

Prices of the consumer goods studied were found to vary according to the age, size and location of the supermarkets, and in particular, it was established that

- Prices of small supermarkets tended to be slightly higher than those of large supermarkets.
- Prices of young supermarkets tended to be slightly lower than those of older supermarkets.
- Prices of supermarkets in the city centre were found to be significantly lower than those of supermarkets in Westlands and Hurlingham.

These findings thus lead to the conclusion that prices are directly proportional to the age, and inversely proportional to the size of the supermarket.

CHAPTER I

INTRODUCTION

1.1.0. An Overview

Price may be defined as value expressed in terms of shillings and cents, or any other medium of exchange (Stanton and Futrell, 1987). Kotler and Armstrong(1993) define price as the amount of money charged for a product or service. It is the sum of values that consumers exchange for benefits of having or using the product or service. Pricing is considered by many to be the key activity within the capitalist system of free enterprise and influences the cost for the factors of production, namely land, labour, capital and entrepreneurship.

Research has found that the most common pricing objectives are pricing to achieve a target return on investment, stabilization of price and margin, pricing to achieve a target market share, and pricing to meet or prevent competition (Peter, Donnelly, and Tarpey, 1982). Pricing strategies are one of the most important aspects of a retail firm's overall strategy, and pricing decisions are an important component of the store's marketing strategy, and strongly influence its ability to appeal to target consumers effectively (Davidson, Sweeney, & Stampfl, 1988).

Pricing strategies require marketing manager to go beyond the classical law of demand and supply as the sole determinant of price to a situation where he can manipulate the prices in the market in response to changing market situations. Price is one of the four major variables that the marketing manager controls, and pricing decisions affect both the firm's sales and profits. Thus, pricing must be taken seriously (McCarthy and Shapiro, 1979).

Marketers adopt different pricing strategies in order to win the consumers, and from a strategic management point of view, the whole idea of business is SUCCESS in a competitive environment in which every marketer is competing for the customers who determine their success. Most of the studies done on pricing strategies are based on the American or British firms where the economies are more free than the Kenyan economy (Nelson & Preston, 1966; Holdren, 1960; Webster, 1978; Spekman & Louis, 1979; McCarthy & Shapiro, 1987; and Stanton & Futrell, 1987). Some of the studies done locally focus on manufacturers (Shumbusho, 1983 and Odera, 1992) but not the pricing in relation to the perceived consumer behaviour at the retailer level. A most recent study by Karemu (1993) focused on the strategic management practices in the retailing sector, with emphasis on supermarkets. The current study is much more focused and emphasises pricing strategies in the retail market.

In the Kenyan situation, many consumers usually do their purchases at month end or during occasions such as Christmas and Easter holidays. This can be confirmed from surveys done by the Newspaper reporters, which show that there is mass shopping during these seasons (for example, Sunday Nation Lifestyle, December 22,1996 page 2). In an article by Gatonye Gathuma entitled `Small is the answer to lean time's Stress (Business Week, Daily Nation, January 21, 1997, page 8), he argues that many Kenyans only do purchases once, that is buy in bulk at the end of the month in supermarkets and later shift to the *kadogos* (small packages as opposed to the giants of the 1980's) in the kiosks in the neighbourhood. This is because many people derive their income from salaried employment and the income is hardly enough to sustain the person through the month. Per capita income in Kenya is Us$ 275 as compared to US$ 25,880 in USA (Central Bank of Kenya, October, 1996) and US$ 4,000 in Malaysia (East African Standard Business Finance, December 17, 1996, page 1) . Thus the purchasing pattern in Kenya is certainly different from the USA situation.

The demand and supply of various commodities in the supermarkets differ from time to time in the year. During Christmas (December), demand for foodstuffs (for example, wheat flour, fat, and sugar) and gifts (for example, flowers and Christmas cards) increases. In January demand for school materials and uniforms increases as schools open. Since the retailers are interested in maximising profits while at the same time seeking to maintain customer loyalty in a highly competitive environment, they are expected to respond to these changes in various ways, among which is through their pricing strategies.

The common pricing strategies used by many manufacturers and retailers include

Discounts and allowances: In this case, the manufacturer reduces the price of the product from the list price, or gives some form of free merchandise to the buyer.

Geographic Pricing Strategies: These include uniform delivered pricing strategies (same price to all buyers, regardless of their location), and Zone delivered pricing (seller's market is divided into a limited number of geographical zones,and different prices charged in each zone).

Skimming and Penetration: Skim-the-cream strategy involves setting a high price within the expected range of prices, while penetration strategy involves setting a low initial price to reach the mass market immediately.

One Price and Flexible Price Strategies: One Price strategy involves setting the same price to all customers for the same quantity of a product, while flexible price strategy involves payment of different prices by customers for the same quantity of a product, depending on their bargaining ability. One price strategy is more commonly used in supermarkets than flexible price strategy.

Unit pricing strategy: This is a retail price - information reporting strategy that has been applied largely by supermarkets. For each separate product and package size, there is a shelf price indicated.

Price lining strategy: This involves setting a limited number of prices at which a store will sell its merchandise. For example, several styles of shoes at sh. 599 a pair, another at sh. 699 and so on.

Resale Price maintenance Strategy: Applied mainly by manufacturers who provide suggested list prices to retailers. The retailers are free to charge above or below the suggested price, although some manufacturers try to control the price as much as possible. In Kenya, for example, the Coca Cola Company closely monitors the prices of its products to ensure they are maintained as recommended.

Leader Pricing Strategy: Involves temporary price cuts of a few items to attract more customers in the hope that as customers come to buy the leader items, they will stay to buy other regularly priced merchandise and lead to increased sales volume and net profit.

Psychological Pricing strategies: Price lining, prestige pricing above competitive levels, and raising too low price in order to increase sales are some examples. Another strategy is odd pricing strategy in which prices are set at odd amounts, for instance sh. 995 rather than sh.1000, or sh. 499 rather than 500. There is little concrete evidence to support the retailer's belief in the value of odd prices, as studies have reported inconclusive results (Stanton and Futrell, 1987).

Supermarkets have one unique feature in that prices of their products are fixed and there is no room for bargaining for lower prices by the consumers. Thus it would be interesting to find out how they go about their pricing strategies. Studies done so far show that prices of similar products vary significantly within local market areas. Examples of these studies include Holdren(1960), who studied 8 stores and found a difference of about 10% between the lowest price chain and the highest price independent supermarkets; Preston(1963), who studied 11 supermarkets in Northern California and found a maximum of 12% separating indices of advertised prices; and Nelson & Preston (1966), who found a 10% difference between the highest and lowest priced stores, with an average price differential of about 3 %. All these studies found chain prices to be lower than those of independents, and unaffiliated stores to have the highest prices. Reasons commonly advanced for the low prices among the chain stores is that chain and large retail organizations have a high buying power and operational efficiency. They also operate under rigid and inflexible pricing strategies where prices are fixed at the headquarters, unlike independents which vary their prices according to demand. Prices were also found to be inversely related to size of the organization.

The economic set up in Kenya is different from the Western economies, and in particular, the Kenyan shopper is typically a low income earner as compared to his counterpart in the West, and the concept of supermarket stores in Kenya is fairly new, the oldest supermarket having developed in the 1970's, with only a few established in the 1960's (Karemu, 1993). The original supermarkets in America had their beginnings in the late 1920's, while those in Britain began in the 1950's (Mason & Mayer,1981).

Preliminary research shows that most of the Supermarkets get price guidelines from the manufacturers, and so either add or subtract something from this recommended price. Several factors affect this crucial strategic decision-making process. Some of these factors include,

Demand considerations: Prices are affected by the demand of an individual item, and items with high demand elasticities tend to show greater price variations.

Competition: A firm may lower its prices in order to take business away from rivals.

Resale Price maintenance: The manufacturer determines the suggested price at which an identified item is to be resold.

Leader Pricing: The retailer sets a limited number of predetermined price points at which merchandise will be offered for sale, and pricing then becomes largely a matter of selecting appropriate items for each retail price line.

Odd Pricing: This leads to minor adjustments in markups that may have been determined appropriately on some other basis.

Multiple - Unit Pricing: Involves combining items such as plates (dining set) or cups (coffee set) and offering a single price, which would be different from a unit price of each item.

Handling and selling costs: These costs vary from item to item, and so different items will have different price markups or markdowns, depending on the associated costs.

Buying benefits: Retailers often obtain quantity discounts when purchasing large lots. There are opportunities to negotiate special concessions when taking on a new line of merchandise or in buying at the end of a season. This affects the final price of an item.

The interest in this study is to find out the relative importance of these factors in as far as they interfere with pricing strategies among retailers in Kenya. and also try to find out if there are any other factors that influence the pricing strategies.

1.1.1 Some mistakes in pricing

Non price factors have become more important in buyer-choice behaviour in recent decades. Price has generated a lot of interest because it is the only element in the marketing mix that generates revenue. All the other elements represent costs. Furthermore, pricing and price competition have been rated as the number one problem facing marketing executives (Marketing News, 1986). Pricing is an area that has been widely rersearched on (Gabor and Granger,1961; Shapiro,1973; Nault,1978, and Simon,1979), but in spite of all these, no well developed body of experience has resulted in rules of thumb to guide pricing (Randall & Bailey,1978).

Kotler and Armstrong (1993) desribe the most common mistakes made by companies and individuals in their pricing as

-Pricing that is too cost oriented,

-Pricing that are not revised often enough to reflect market changes,

-Pricing that does not take the rest of the marketing mix into consideration, and Prices that are not varied enough for different product and market segments.

Kenyan marketers are not an exception to these weaknesses, and quite often set prices without seriously having any long term strategy. They often se t prices that are meant to take care of the short term profits, without much regard for the future. The classical pricing model asserts that prices allocate goods and services in the market place, and it is from this that we have the economic theory called the Law of demand, which asserts that the quantity demanded is inversely proportional to price.

However, this is based on the postulates of a rational consumer, who has full knowledge of the available goods and substitutes, a limited budget, and a singular drive to maximise his utility (Kotler and Lilien,1983). We know that the consumer is not always rational and may at times act irrationally, thereby violating this law. What this means is that pricing is not as easy and straight forward as this law tends to imply. It requires a lot of skills and care, and an understanding of the consumers and the general marketing environment. This is what causes difficulties in the pricing process.

Price and brand are two important factors influencing the consumer's purchase of products or services. Price is important because it is regarded as a measure of merchandise worth, and along with brand , is one of the most important ways of estimating quality (Mason and Mayer, 1981). At the level of primary demand, consumers appear to have ranges of acceptable prices for products: so that prices either too low or too high are objectionable. This is because too low prices are associated with poor quality.

Rearch has also shown that when buyers are given a range of choices in prices, they are most likely to choose middle priced items. Thus, management can influence the product choices that are perceived as middle-priced. This works best for retailers who use price lists or price catalogs. Customers who find it difficult to compare the prices of individual items directly tend to generalise from overall price image of a store. Management, in their pricing policies , should thus consider not only the pricing of individual item, but also the need to develop a favourable overall price image (Wheatley and Chiu,1977).

There are two main theories in retail pricing, namely Weber's law and the Fair price hyphothesis. Weber's law simply indicates that at higher price levels, a greater change in price is required to influence consumer behaviour. The Fair - price hyphothesis states that the consumer's perception of price is influenced more by the concept of a fair price for the the product than the degree of price difference (Azhori and Carrman,1977). According to Weber's law, retailers must provide markdowns of at least 20% of the old price in order to have impact on consumer perception. if the price reduction is less than that provided under the law, then the promotional strategy should probably be on quality and other distinguishing features of the product other than price. However, if the reduction in price is significant with respect to the absolute price, as compared with the prices of competitive products, price probably should be emphasised in advertising. In one experiment, it was found that when the retail selling price of an item was lowered to 15% below the manufacture's suggested list price, there was a major increase in the attractiveness of the brand to consumers(Carson, 1976).

Markdowns should be handled with care as consumers probably do not expect appreciable markdowns on certain items such as luxury items, and may begin to doubt product quality if the price is slashed.

1.2. Statement of the Problem

Since Supermarkets act as the link between the manufacturer and the consumer, they are expected to come up with pricing approaches that foremost reflect the manufacturer's recommended price,and then provide a margin for their profits or whatever is their pricing objective.

It is amazing how supermarkets come up with very different prices for the same product that has been supplied by the same supplier. For example, why would Uchumi have a different price for Kasuku than Ukwala supermarket, given that they both get this product from the same supplier?. Is it because of the different relative ages or sizes of the supermarket?. These different prices among the supermarkets are a manifestation of different pricing strategies. What are the factors that influence these pricing strategies?.

Looking at the previous researches, a gap in research clearly comes out as these questions seem not to have been addressed, and this is the essence of this study. Many studies have been done to underscore the importance of pricing strategies in the retailing sector, but the evidence draws mainly from the developed economies, and very little has been done in Kenya, a developing country. Some studies such as Shumbusho (1983) and Mwanzi (1991) touch on certain aspects of strategic management, while Aosa's study

(1992) is based on the strategic management in the private sector. Karemu's study (1993) narrows down to analyze the strategy practices in the retailing sector, but does not attempt to establish the factors that affect the specific strategic practices. In deed, she admits that the focus of her study was rather wide, and recommends a more focused study based on specific aspects of the strategic management practices, to give a deeper insight into the strategic management practices in Kenya.

In one study (Holdren, 1960), price was found to be inversely related to size, while according to Hollander(1960), old supermarkets should have higher prices than young ones. All these need to be tested in Kenya, where strategic management practices among retailers are not very advanced (Karemu, 1993).

Studies done so far have been so generalized that it would be unrealistic for anyone to assume that the results hold both for manufacturing and retail firms alike. The present study confines itself to the pricing strategies and seeks to establish the factors that affect pricing strategies in the retailing sector.

Factors that may affect pricing strategies have been documented, and the purpose of this study is to identify these factors in terms of their relative importance in the Kenyan situation. This is because most of the studies were done in the 1960's and were based on Western developed economies. The studies concentrated on establishing differences in prices among different categories of stores, but failed to consider the factors that influenced pricing strategies. Even where the factors have been given, there is no research evidence to show the relative importance (Strengths) of the various factors.

The relationship between age and price can be explained by the phenomenon known as the Wheel of Retailing,first suggested by McNair (1938), and later discussed by Hollander (1960). According to this phenomenon, innovators in retailing first appear as low margin, low price operators, but later upgrade their facilities and services, and mature as high cost, high priced retailers. This is particularly so for items with high elasticities of demand, those reaching a wide cross section of consumers. Another supporting point is that older supermarkets have established customer loyalty and can therefore sustain higher prices, as opposed to smaller stores, which need to attract customers by offering smaller prices.

Since the study is based on a limited geographical area covering only part of Nairobi city, the effect of convenience of location and differences in operating costs will be assumed minimal. However, a categorization of the supermarkets based on their location will also be done to try and find out relationships between price and age within each location. The effect of other factors when relating age and size with price will also be minimised by use of averages of size and age.

1.3. Objectives

The objectives of this study are two, namely;

1. To identify the factors that affect pricing strategies,
2. To analyze how prices vary with the age, size and the perceived consumer buying behaviour.

When we talk about consumer buying behaviour, we mean the pattern of purchasing exhibited by the consumer in a week, month, or the year. Generally, there is more shopping during the week end as compared with the other days of the week, and more shopping during Christmas and Easter as opposed to other seasons of the year.

The reasons for this are that many consumers are busy during the week and prefer to shop during the week end [Kenya has adopted a five-day working week in most sectors]; most working Kenyans get their money at the end of the month and either shop during the last week of the month or the first week of the following month; while Christmas and Easter holidays have become the undisputed festive seasons, not only in Kenya but all over the world, particularly the christian countries. Christmas tends to be more important than Easter as far as shopping is concerned, and more consumers do a lot of shopping for that season. These facts are known to many businessmen and we expect them to respond to this, either by adjusting their prices,or other marketing mix elements in order to meet the increased demand.

1.4. Importance of the study

The results of this study will be very useful to consumers who do their shopping in these supermarkets, as it will guide them in predicting where to expect lower prices of most goods at different seasons of the year, depending on the age and/or size of the supermarket. Marketing managers will also benefit in identifying the correct pricing strategy that will give the supermarket a competitive edge over the others, that is, one that beats the common practice of the other competitors.

1.5 Assumptions

The study assumes that:

i. All Supermarkets get price guidelines from the manufacturers for the products under investigation. This is based on the admissions of most of the supermarkets visited.

ii. No relationship exists between size of the supermarket and its age, and the oldest supermarket need not be the largest. The basis for this is that although new organizations are typically small, largeness and old age do not guarantee longevity (Wholley & Brittain, 1986)

1.6. Definitions

i. Age: Defined here as the length of time (in years) the supermarket has been in business as a supermarket in Nairobi. The average of the ages will be used as the threshold and supermarkets above the average will be considered old while those below the threshold will be classified as young.

ii. Size: A measure of the volume of business handled by the supermarket. Here, size will be measured in terms of the number of branches the business has in Nairobi, the total number of employees, the number of check-outs, the total floor space, and the sales turnover. Average sales or floor space will be used as the threshold to differentiate between small and large stores. This approach has been used widely in the past (Dalrymple & Thompson, 1969, Karemu 1993).

iii. Supermarket: A large scale departmental retailing institution offering a variety of merchandise, and operates on a self service basis, with a minimum of customer service (Stanton and Futrell, 1987). This definition will be adopted for purposes of this study.

iv Pricing strategies describe the systematic process in which the marketer sets prices for his products, usually with the ultimate goal of making profits in the long run (Davidson, Sweeney,and Stampfl,1988).

1.7 Scope and Organization of the study

This study covers supermarkets based in Nairobi's city centre, Westlands, and Hurlingham. This is because over 50% of all the supermarkets located in Nairobi are found in these areas, where some of them have numerous branches.

The study is divided into five chapters as follows:

Chapter one gives an overview of the study, statement of the problem, objectives; as well as the Importance of the study and the assumptions.

In chapter two, a wide review of the literature is given mainly in the areas of retailing, history of supermarkets in Kenya, pricing strategies used by many firms and internal/external factors affecting princing. Chapter three discusses the research framework, population of the study, and data collection method.

In chapter four, data analysis and findings are given, while chapter five gives summary and conclusions to the study, as well as limitations and suggestions for further research.

CHAPTER II
REVIEW OF THE LITERATURE

2.1.0 Retailing

2.1.1 The Retailing Structure and Evolution

Many theories have been advanced to explain the evolution of retail stores, among which are the following;

i. The Wheel of Retailing

This is used to explain the growth of retail stores and in a way may be used to relate price with the age of the store. The Wheel of retailing essentially consists of four separate hyphotheses (Goldman,1978), as follows;

H1: Institutional innovations in retailing penetrate the system on the basis of price appeal.

H2: The lower prices characterising the new institution are achieved through a selection in operating costs made possible by the elimination of store services and the lowering of the store standing and quality.

H3: After establishing itself in the retailing system, the new retailing institution engages in a process of trading up.

H4: Trading up is the cause of the appearance of new institutions in retailing.

iii. Some persons argue that the movement of the wheel of retailing is slowing, and contend that many retailers are now tailoring their outlets to match specific wheel positions and intend to remain there. The wheel of retailing shows that price will be related to the age of the supermarket in that older supermarkets charge a higher price than the young ones. Holdren(1960) argues that innovators in retailing first appear as low margin, low price operators, and as time passes, they upgrade their facilities and services, margins rise, and they mature as high cost, high price retailers vulnerable to the next innovator. However, the phenomenon of the wheel of retailing has come under heavy critism, and even Malcom McNaire, regarded by many as the father of the wheel of retailing, has dismissed it as too narrow and deterministic as an explanation of change in retail structure (McNaire and May, 1976).

ii. The Retail Accordion

Some researchers have suggested that retail institutions evolve from broad based outlets with wide assortments to specialised narrow-line store merchants and then return to the wide assortment pattern (general - specific - general). This accordion evolution reflects a supposed contraction and expansion of merchardise lines in retail outlets. In America, for example, supporters of this theory argue that modern retailing began with general stores, then developed to specialised stores, but began to move back to general stores in the 1980s(Mason and Mayer, 1981).

iii. The Dialectic Process

This implies that retailers mutually adapt in the face of competition from "opposites" when challenged by a competitor with a differential advantage, thereby negating some of the innovators' attraction. As a result of these mutual adaptations, the two retailers gradually move together in terms of offerings, facilities, supplementary services, and prices.

iv. Natural Selection

This is essentially an adaptive behavior. According to Dreesmann(1968), the retailing institutions that can most effectively adapt to environmental changes are the ones most likely to prosper or survive. The retailer must therefore continuously monitor the environmental changes as well as the changing patterns of consumer behaviour and change accordingly.

v. The Retail Life Cycle

This has been advanced as a remedy to the other theories which have failed to address the question of the pace at which change occurs. It points to the apparent acceleration of innovative retail activity, and can guide management's assessment of the direction and magnitude of future evolutionary change. The cycle is synonymous with the typical product life cycle, and shows that a retail store goes through the phases of early growth (innovation), accelerated development, maturity, and decline (Davidson, Bates, and Bass, 1976).

2.1.2 Development of Modern Retailing

Retailing in the United Kingdom has existed for a long period of time and has grown from simple to a giant industry (Gillespie and Hecht,1977). In the United States, the general store was the first modern institution of retailing, and its development can be explained by the accordion (General-Specific-General) hyphothesis. Single line stores were the next to emerge, and are an example of adaptive behaviour. They have typically replaced the rural general stores wherever communities have grown enough in size to support more specialised outlets.

Departmental stores grew as an example of dialectic process in the 1950's, and offered a full-line outlet featuring a wide variety and assortment of merchandise, supplementary servises,and high prices. The departmental store appealed to all types of customers, the extravagant as well as the budjet minded. The opposite of the departmental store was the discount store, which featured low prices, high volume, low markup, and narrow assortments of hard and soft goods. In recent years, the department stores have taken a variety of approaches to meeting discount and specialised store competition. These include increasing self-service, longer business hours, and new merchandise lines.

Mail-order houses were among the earliest retail institutions to recognise the importance of the environment affecting merchandising, and they not only respond by improving their sales promotion and adding brand merchandise, but also continue to stress price and a guarantee of satisfaction.

The corporate chain has come up as a new phenomenon in modern retailing, characterised by central ordering and control over all retail units, including control of profit planning, losses, and merchandise planning. In the United States, they became important in the 1920's because of the economic and social environments of the time, hence they are an example of adaptive behaviour. The chains introduced the concept of self service by shifting many of the functions traditionally performed by the retailer to the customer.

Supermarkets did not emerge untill the late 1920's. They developed as an antithesis of the small independent outlet, which tended to specialize in meat, produce, or dry goods (Appel,1972). Supermarkets developed as a result of a blending together of specialty shops and mom-and-pop outlets. They offer customer service, wide variety of merchandise, long hours of service, and low prices. Convenient stores, particularly in food, are viewed as the antithesis of the supermarket. They are characterised by closeness of location, long hours, limited lines of fast moving merchandise, and higher prices than are found in a typical supermarket.

Other types of retail markets are shopping centres which have evolved in suburban areas as a result of the decentralization of urban population and desire for humble parking space and longer hours than can be found in the city. They provide a convenient one-stop shopping to customers. In Kenya, shopping centres include Yaya Centre and Sarit Centre.

2.1.3. Classification of retail Stores

Retail stores may be classified in many different ways, such as:

i. Ownership of establishment: Retail stores have different ownerships. Some are independents (owned by individuals), chains (have centralised buying and common ownership), or are government owned. In Kenya, we may categorise retails as purely Indian, Kenyan-Indian or purely indegenous (Kenyan). We also have publicly quoted companies such as Uchumi Supermarkets.

ii. Type of merchandise carried: Retail establishements may also be classified in terms of variety and assortment of the goods they carry. Variety (width) refers to the number of lines of merchandise carries, while assortment (depth) refers to the choice of products offered within a particular line (Mason and Mayer, 1981).

iii. Merchandise group: The stores are classified according to the kind of business. For example, we may have liquor stores, food stores, furniture stores, and so forth. It is important as it permits the use of census data to analyse historical trends in retail sales by merchandise groups to determine the long term trends in the relative importance of selected merchandise types.

iv. Location: This is a very common type of classification and is useful in establishing long term trends in regional levels of retail sales. In Kenya, retail stores are found in all major towns, and supermarkets are found in Nairobi, Mombasa, Kisumu, Nakuru and in all the major towns. Their concentration is highest in Nairobi, where the largest supermarkets in Kenya are to be found. Even within Nairobi itself, the supermarkets are strategically located in such places as the city centre, Westlands, Hurligham, Langata, South B, and so forth. This is one of the classification criteria used in this study.

v. **Size of Trading Area:** Size of trading area is a very useful basis for classification. Some supermarkets are very large while others are small. Some are divided into branches located in different places, while others occupy several floors in the same building. In all these cases, the total trading area is the summation of the areas in the different branches or floors. This criteria has also been used here.

2.1.4 <u>The Classic functions of Retailing</u>

Consumers expect retailers to offer certain services, which include;

1. The creation of assortments: Consumers expect to get as many varieties of different items as possible in any given supermarket or store. In America, for example, supermarkets are said to carry about 8000 - 10,000 different items; discount stores 30,000 - 75,000 different items, while department stores carry hundreds of thousands of different iems (Davidson, Sweevey and Stumpfl, 1984).
2. Breaking Bulk: Consumers expect the retailers to offer products and services in small enough quantities for individual or family consumption.
3. Ready exchange of value: Consumers expect ready exchange of value between merchant and consumer. This is a function of several factors:

   i) Time convenience - The greater the number of hours that a store is open, the greater the time convenience for consumers. Sunday openings and long hours is commonplace among supermarkets in Nairobi. In addition, having specific products available in a timely manner is crucial. In Kenya, there are many instances when commodities like sugar and milk are out of supply but will be available albeit in restricted purchase quantities per customer in most supermarkets in Nairobi.

ii) Place convenience. The nearer the store is to the consumer, the greater the place convenience. Many stores tend to be located near to the trading centre, as is the case with supermarkets in Nairobi, which are concentrated in the city centre.

iii) Transitional efficiency: When a consumer makes a purchase, both the buyer and the seller contribute time and the merchant contributes the facilities. When a shopper purchases 20 different items in a supermarket, all in a single transaction, significant savings accrue. As many as 19 transactions are saved as compared to the sad situation where all the transactions were to be done in different places. Provision of more check outs also helps to reduce the time spend queuing to pay.

iv) Information availability: Supermarkets provide different varieties of items with price labels attached, which act as information guide to shoppers. The shopper can make comparison of the different items e.g. different types of drinking glasses and their prices. Providing information costs money and has value, but it is not always paid for by the consumer.

v) Competitive Prices: The price of a product is generally a function of primary demand for the product and the retailer's total market place offering. Each service (extended hours, delivery, broad selection, and so forth) represents a cost for the retailer that must be covered in some way in the long run. Setting what would be viewed as a fair price is a very complex matter when viewed through the competitive dynamics of the marketplace.

2.2.0 History of Supermarkets

2.2.1 The Origin of Supermarkets

Supermarkets in America had their beginning in 1920s and 1950s, while those in Britain begin in the 1950s. They marked the beginning of self service in which consumers would pick for themselves what they wanted and pay at the counter as they exit. Success of the original supermarkets in America was attributed to such factors as the economic conditions of the 1930's (Great depression) which made consumers more price concious and their low-price appeal strategy. Their location in low rent areas and less advertising budgets, made them sell at reduced prices and increase volume of sales. The original supermarkets were stocked mainly with dry groceries, but as time went by, they started to stock both food and non food items and currently have become like a `one-stop' shopping centre.

Today, supermarkets in America are facing a lot of competition from convenient foodstores, discount foodstores and superstores. They are thus moving in all directions to improve their competitiveness. These areas include opening very large superstores (over 25,000 sq feet) and increasing the variety of merchandise. They are also expanding by providing larger packing space, and longer opening hours, as well as increasing their promotional budgets and moving heavily to private brands to reduce their depedence on national brands. (Mason and Mayer, 1981).

2.2.2 Development of supermarkets in Kenya

The term supermarket is fairly new in Kenya. The first supermarkets started to emerge in the 1960's, mainly as self service stores in Nairobi. Among the first ones were Westlands General Stores (1960), K and A (1962), African Grocers (1962), Ebrahims (1970) and Uchumi (1975).

Many of these supermarkets grew as family businesses and even today,they are run as such. The supermarkets initially occupied small trading areas so that movement of customers could easily be monitored. They have, however, continued to expand in size, making it hard to closely monitor customers, and thereby raising the problem of shoplifting.

In recent years (1980s and 1990s),many more supermarkets have come up, among which are the largest in this country. These include Nakumatt and Jack & Jill Supermarkets, which are now major business competitors with Uchumi supermarkets, the undisputed market leader in the supermarket retailing sector.

According to the Kenya Business Directory (1993) which has since been updated, there are 97 registered supermarkets in Kenya, among which 71 (74%) are in

Nairobi. This shows a very high concentration of supermarkets in Nairobi as compared to other parts of the country. It is also noteworthy that of all the supermarkets found in Nairobi, over 70% were established after 1980. Given that the first supermarkets in this country were established in Nairobi, and that 74% of all supermarkets in Kenya are based in Nairobi, we may confidently conclude that over 70% of all supermarkets in Kenya were formed after 1980.

The reason for the increased growth of supermarkets in Nairobi may be attributed to the changing lifestyles of majority of Kenyans. Foremost, there has been an increasing rural-urban migration especially by the young school leavers in search of jobs. The working elite in the cities are ever in a hurry and would like to shop conveniently and save as much time as possible. Supermarkets, with their `one roof shopping' where a wide range of assorted merchandise is found with long hours of service, and low prices, offer a good remedy to the problems of the city workers.

In recent times, particularly in the 1990s, convenient stores have come up in most petrol stations such as Esso and Caltex where customers can do their shopping as they stop to fuel their vehicles. This trend towards opening more self service convenient stores close to the customers is likely to continue into the next century.

The increase in the number of supermarkets may also be attributed to the liberalization of the market in which many trade restrictions have been lifted. Majority of the supermarkets get supplies directly from the manufacturers, and occationally get commondity or cash discounts as they purchase in bulk. This means that they can afford to charge lower prices than the ordinary retailers.

The self service concept also means that many of the duties supposed to be done by the retailer are transferred to the customer. All the retailer needs is to have a few people to arrange the merchandise on the shelves, one or two persons to punch the price label onto the item, and cashiers to check out the customers at the exit.

The problem of shoplifting, which characterised supermarkets in the 1980s has been brought under control through employment of more people to check the customers as is the case in Ebrahim's supermarket where somebody just sits on a shelf somewhere to conveniently watch customers from down below; introduction of convex mirrors as is the case with Nakumatt, Jack & Jill and Uchumi supermarkets, and Chandarana's modern Gateways 2000 scanner.

In terms of pricing, the main difficulties experienced are the expiry dates of some product such as biscuits, and fruits. For product like bread and milk, the suppliers in most cases replace expired ones, but for biscuits and oils, the supermarkets are usually not compensated by suppliers. In this case, the supermarkets are sometimes forced to put the items on special offers (at redued prices) to sell them off instead of waiting for them to expire. Thus prices of these items are less stable than for non perishables like thermos flasks, wheelbarrows, and cutlery. Putting price tags on all the merchandise is also quite tedious and expensive. In some supermarkets like Jamia supermarket and Uchumi, electronic scanners are used at the check outs to read the univesal product code numbers placed on all items, so that prices do not have to be put on each item, but rather on the shelf for information to the customers.

Another problem experienced by supermarkets is the monitoring of prices by both customers and competitors. Since supermarkets would like to use price as a competitive weapon, it becomes hard to manipulate the price as they are closely being monitored by other supermarkets. Some supermarkets that have established strong customer relationships with some of their customers (as those based in Sarit Centre and Yaya Centre where customers service is empahasised a great deal) also get complaints from their customers when they occassionally visit other supermarkets and realise that these other supermarkets sare offering lower prices.

The concept of supermarkets is gaining a lot of interest in Kenya, and supermarkets are springing up in nearly all towns in Kenya. In Nairobi itself, the trend seems to be away from the city centre to less congested areas like Westlands, Karen, South B and South C. Supermarkets are also coming up in the sub-urban centres like Kawangware, Githurai, Buruburu, and Athi River.

As mentioned earlier, many petrol stations are also opening convenient stores to serve customers who stop to fuel their vehicles. Supermarkets like Jace & Jill and Nakumatt are expanding their trading floors usually by acquiring and opening up adjoining premises to create more space. Uchumi is about to open up a megastore along Ngong road, where there is a lot of parking space. All these shows that there is increased competition in this area, and in order to survive, supermarkets will need to adopt appropriate strategies to cope up with the strategies.

2.3.0 Pricing consumer products and services

Price cannot be managed in isolation but is one part of an integrated mix of appeals put together by the market to win the patronage of target customers. It must be meshed with the other appeals and be used to strengthen them. Improperly handled price moves can destroy the effectiveness of other marketing efforts mainly by undermining their basic logic and credibility (Oxenfeldt and Kellly, 1986).

According to the economic theory (which we may also call the price theory), emphasis is put on the role played by price in the working of the free-enterprice economy; the usual conditions of cost and demand that prevail, and explores the behaviour that will enable the producer-seller to obtain miximum profit in such situations. Unfortunately, the business executives cannot apply price theory to reach conclusions about the specific price to charge for their offerings.

According to Oxenfeldt and Kelly (1986), the mangerial economist is concerned with such questions as whether the proposed price is one which will maximise real economic profits for the firm or simply raise book profits, whether the appropriate cost and demand concepts have been used in estimating the effects of alternative price actions, and how cost and demand estimates should be made to arrive at a better price. These questions enables the managerial economist to discover some of the fundamental errors committed by business executives in setting price. These errors include:

i) The tendency to think in terms of averages. Considering prices as averages ignores the particular and unusual circumstances under which the price move occurs, and which call for the use of marginal or incremental costs. This can lead to failure to price specific commodities correctly. Some managers also generalise on consumers, instead of taking each consumer as an individual. This problem has been overcome by developing market segmentations to recognise the significant difference that exist among consumers of any product.

ii) The reluctance to "let bygones by bygones". This consists of letting irrevocable and irretrievable past expenditures enter into the cost computations underlying price decisions, with the result that profitable business is lost. Sunk costs (cost already incurred) must therefore be always ignored in making price and output decisions, because they will not be affected by any decision one might make.

iii) The tendency to ignore alternatives. Alternative uses of all the elements (materials) must be taken into account, instead of just charging them on the basis of what was paid for them in the past (book costs). The concept of opportunity costs has been developed to help highlight the constant need to think in terms of alternatives when arriving at a decision.

iv) The tendency to emphasise cost consideration over demand considerations. Many markets emphasis the concept of cost plus pricing and demand consideration are simply ignored.

The process of price setting should adopt a multi-stage approach in which the price decision is split into manageable parts, each one logically antecedent to the next so that the decision at every stage narrows the range of options and facilitates subsequent decisions. This approach places emphasise on long-range policy considerations that should govern the selection of price, and should therefore eliminate the danger that a pricing decision will be opportunistic, gaining some profit in the present while creating severe difficulties to be overcome in the future.

The approach requires that pricing process take into consideration its relationship with other elements of the marketing mix. In summary, the multistage process ecompases six equally important decisons in the following order.

1. Selection of market targets. The marketer must foremost determine the target customers. This will enable the market to identify more sharply the acceptable limits placed on price by their target customers -when they will see it as too high and when as too low (Gabor and Granger, 1966).
2. Determine the perceived benefits. markets must determine what benefits their offerings are seen to employ, and also decide what benefits they wish their target customers to perceive in their offering.
3. Composition of marketing mix. In this stage, the marketer selects a combination of sales promotion devices that will create and reinforce the customer benefit mix and achieve maximum sales for the planned level of dollar outlays. Persuasion in this case is very important, and involves putting together arguments and presentations which will communicate the desired customer benefits mix. The marketer determines the relative costs to be spent on promotions, distribution, service and so forth.
4. Assigning role to price in the marketing mix. Generally speaking, price should be seen as balancing device, and the nonprice benefits in the offering should be weighed and contrasted with the perceived benefits offered by the individual

rivals or with the average for all rivals. Depending on the outcome, the firm would then charge a lower price than rivals if the comparison is unfavourable, or a higher price if it is favourable.

5. The selection of a pricing policy. The role assigned to price must now be translated into a pricing policy which will be a guide as to the purpose of the prices, when changes are to be made, and for what products.
6. Choice of a pricing strategy. The firm must then select a course of pricing that is consistent with its long-term objectives. There are many strategies that a firm can employ to meet a special market situation.
7. Selection of a specific price. Finally, the marketer is in a position to set specific prices for the goods. Several approaches may be followed, such as starting with the highest price in the acceptable range and later reducing it if resistance is encountered. This is useful as it creates an impression of higher product quality and also allows added room for future reductions.

2.4 Internal and External Factors that affect Pricing

a. Internal Factors

There are many internal factors (Factors within the firm itself and which the firm can relatively manipulate) that come into play in setting prices. The firm must take them into consideration in setting prices. Some of these are discussed briefly below.

i. Marketing objectives

The firm must come up with clear objectives as to what it wants to achieve through pricing. It must select its target market and positioning carefully, then go on to determine the appropriate marketing strategy, including the price itself. Pricing strategy is largely determined by past decisions. Some of the other objectives a firm might have are:

survival. This is done where a firm is in a lot of problems as a result of heavy competition ,too much capacity, or changing consumer wants. In such a case a firm takes survival as a priority over profits, and might even set a price below cost, provided it can cover the variable costs and part of the fixed costs.

Current profit maximization. In this case, the firm is interested in the short run profits and places little concern for long term performance. This is rather a risky undertaking as it can lead the firm into a lot of difficulties in the long run.

Market share leadership. The firm may want to obtain the dominant market share, and so charge a very low price in order to win as many customers as possible. This may be compared to penetration pricing strategy done for new products, in which a firm initially charges a very low price but gradually raises it after achieving the desired market share.

Other pricing objectives include setting a low price to keep competitors out of the market, or set prices at competitor's prices to stabilize the market. Prices can also be set to keep the loyalty and support of the resellers or to avoid government intervention. Some firms may also set a low price for one commodity to help the sales of other products in the company's line. In Kenya, this is common in supermarkets, where for example, maize flour might be underpriced to attract customers into buying wheat flour. All these objectives stem from within the firm and so the firm has control over the kind of objectives to give priority to.

ii. Marketing Mix strategy

Pricing is just one of the marketing mix variables, the others being the product itself, product promotion, and distribution. Thus the pricing decision must be coordinated with these other variables. For example, if you want a very high quality product, then the price is likely to be higher to cover the high cost.

A basic principle used by the Japanese firms is target costing, in which the firm just sets the price and then bases the other marketing mix decisions on this price decision. Once the target price decision is set, all the other variables are costed in such a way as to ensure they do not exceed the targeted price, although minor changes on the target price may finally have to be made (Ford, 1991). By meeting its target costs, the company can set its target price and establish the desired position.

Firms must therefore consider the total marketing mix in setting prices. This is because all the non price variables like product quality, channels of distribution, and promotion strategies all affect the price.

iii.Costs

One of the building blocks of the marketing concept is a firm's goal should be profitable sales volume. For a firm to make profits, it must be able to cover all the costs associated with the production, distribution, and promotion of the product. A firm that incurs very high costs must sell at a high price than its competitors, or charge the same price as its competitors but run at a loss. Thus in a competitive environment , a firm must try to keep the total costs as low as possible, otherwise it will expose itself to a competitive disadvantage as it will be forced to charge at a higher price than its competitors.

iv. Organizational considerations

Organizations have different people to set prices. In most companies prices are set by the top management while in others the sales persons propose prices for approval by the top management. In large organizations, prices are set by the marketing or the sales departments. Some companies have pricing departments which set prices.

Sales managers, production managers, finance managers, and accountants, also have influence on prices. For sole proprietors, the proprietor is the one who sets prices, mainly based on the cost price and then adds his profit margin after adding all the costs of distribution storage, promotion, sales commission, taxation, and many others.

b. <u>External Factors</u>

In addition to the internal factors just described, firms are faced with a number of external factors that must be considered in setting prices. These are factors over which a firm has very little control., and are sometimes called the external environment.(Pearce, 1991). They include the nature of the market and demand, competition, economic conditions, government policies, and cultural values. It is noteworthy that these factors do not only apply to firms but to individual traders as well. A roadside seller, for example, must comply with government regulations.

i. The Market and demand

Whereas costs set the lower limit of price, the market demand sets the upper limit. There is an inverse relationship between price and demand and so in setting prices, the marketer must be aware of the market demand and how it will affect the price. The pricing freedom varies with the different types of markets, of which the economists recognise four major ones;

Pure competition: In this case, there are many buyers and sellers and no single buyer or seller has much effect on the price. There are no barriers to entry in pure competition and so marketers must be careful not to raise prices or profits so much as to attract new entrants (Stigler,1987). In purely competitive markets, marketing research, product development, pricing, advertising, and sales promotion play little or no role, and so sellers in these markets do not spend much time in pricing strategy. Prices are determined by the market forces of demand and supply and each individual firm is a price taker rather than a price maker (Dunnett,1992). Pure competition is not common in developing countries where the government is not only the referee or regulator of the economy, but an active player. With the ongoing Structural Adjustment leading to the liberalization of the economy, Kenyan economy might in the future move towards this pure competition market system.

Monopolistic competition: This is characterised by many buyers and sellers who charge different prices (rather than one price) because sellers can differentiate their products. Sellers try to develop differentiated offers for different customer segments and in addition to prices, freely use advertising, branding and personal selling to set their offers apart (Kotler and Armstrong, 1993). Sensitivity of one firm on each other's pricing strategies is not very high. An example of this competition in Kenya is in the textile industry.

Oligopolistic Competition: The market consists of a few sellers who are highly sensitive to each other's pricing strategy. Barriers to entry are very high and this is why there are few sellers. Since no firm is sure of what the others will do if it raises or lowers price, the firms tend to unite together and act as if they were a single monopolist, a behaviour Dunnett(1992) describes as joint profit-maximizing. Any firm that tries to steal the market share by lowering its price finds that this is not possible as the other firms respond immediately by lowering their prices as well. A firm that charges higher price than its competitors risks losing customers to competitors.

Since high prices might attract new entrants, the firm may choose to forego some short run super-normal profits and instead charge lower prices as a way of deterring new entrants. This policy is called limit pricing since the prices set are just low enough to discourage other firms from entering the markets.

Pure Monopoly: This is a case where there is only one seller which may be a government monopoly, a private regulated monopoly, or a private non regulated monopoly. Pricing strategies in each case are different. For instance, a government monopoly may charge a lower price than cost if the service is essential, or might charge very highly to discourage competition. Private regulated monopolies are free to set prices, but under government regulations. Unregulated monopolies are free to set their prices.

Monopolies probably earn no better rate of return than competitive firms because these firms arise out of the smallness of the market: the rural town can support only one petrol station, only one butchery may be required in a rural village, and so forth. Pure monopolies are the commonest markets in developing countries. In Kenya, for example, Kenya Power and Lightning Company has monopoly over power supply, Kenya Posts and Telecommunications Corporation has monopoly over telecommunications, and so on.

The persistence of monopoly (or oligopoly) depends upon the existence of barriers to entry of new rivals and these include legal barriers such as franchises (certificates to some people to produce a good or service) and patents (exclusive right to a process or a product).

In Kenya, for example, there is a strict control over the number of radios and television stations in operation. In setting prices, the marketer must also take into consideration the consumer perceptions of price and how they affect consumer's buying decisions. Thus as Nagle(1983) argues, all pricing decisions, like other marketing mix decisions, must be consumer oriented. He goes on to say;

> *"...Pricing requires more than technical expertise. It requires creative judgement and an awareness of buyer's motivations.... . The key to effective pricing is the same one that opens doors... in other marketing functions: a creative awareness of who buyers are, why they buy, and how they make their buying decisions. The recognition that buyers differ in these dimensions is as important for effective pricing as it is for effective promotion, distribution, or product development"*

Effective buyer oriented pricing involves understanding how much value consumers place on the benefits (actual or perceived) they receive from the product and setting a price that fits this value. Thus marketers must understand the consumer's reasons for buying the product and set price according to consumer perception of the products value.

A good pricing strategy should therefore start with the analysis of the consumer needs and price perceptions, which is consistent with the marketing concept. Price must be considered along with other marketing mix variables before the marketing program is set.(Nagle,1987). In setting prices, the marketer is also supposed to carefully analyze the price - demand relationship and also the price elasticity of demand. For instance, there are some goods/services which are highly sensitive to price changes (especially luxury goods such as beer) while others are not so sensitive (necessities like salt). Pricing strategies in both cases are different. Presence of substitute products also affect pricing strategy. For example, if the price of cocoa is raised very much, people might shift to other kinds of beverages like drinking chocolate or Nescafe.

ii. Competitors' prices and offers

Competitors provide a major challenge for any marketer in the price setting strategy. The marketer must first understand the quality and price of each competitor, before setting his prices. The kind of strategy adopted will determine the kind of competition the firm will face. A low-price, low-margin strategy may stop competitors or drive them out of the market, while a high-price high-margin strategy may attract competitors. The marketer should also know the prices of substitute products sold by its competitors. For example, a company selling Nikon cameras must know the competitors' prices for Canon, Minolta, Kodak, etc.

One supermarket executive told me that when he realises that a certain item is moving very fast (high demand) he sends investigators to check the prices of his competitors, in case he has set a very low price. He then adjusts the price accordingly. If the item is moving very slowly, ratehr than lower the price, he just sends investigators to check the prices of his competitors. If the prices are very low, he finds out who the supplier of the item to the competitors is, then finds out if this supplier is offering very good terms to the competitor, such as commodity discounts or credit. He then negotiates with the supplier to sell to him all the same terms, or to tighten the competitors terms so that the competitor is forced to raise his prices.

Thus increased or reduced demand does not always lead either to price increase or decrease. The marketer has to check on the causes of the increase or decrease in demand, and respond appropriately.

iii. Economic Conditions

Economic conditions also form an external environment which affects the pricing strategies by a firm. Inflation, recession, boom and interest rates all affect pricing decisions because they affect both the costs of producing a product and consumer perceptions of the product's price and value. Kenya, for example has suffered high levels of inflation since 1990, reaching a climax of 45% in 1993, and causing great price increases of most products. However the rate of inflation has been brought under control at a single digit level, but the general economic situation is still turbulent and posing major problems in setting stable prices.

iv. Government policies

To protect consumers from unfair exploitation, the government sets some policies that act as guidelines to pricing. For example, minimum wage guidelines raises the cost of production and may lead to higher prices of some commodities. There are some agricultural products like maize, cotton, and pyrethrum where prices are set by the government. The government may also impose taxation on some products in order to generate revenue, and so result in sellers charging a higher price for their products.

v. Changing Cultural values

Consumers have different cultures such as religion, ethnicity, education, etc, all which affect their buying behaviours. For example some religions prohibit beer drinking. Christians have holidays like Easter, Christmas, etc, during which they make a lot of purchases to cerebrate. Muslims also have their holidays like the Holy month of Ramadhan. Both Christians and Muslims abound in Kenya and understanding their buying behaviour can assist marketers in setting their prices.

Consumer needs and preferences vary for people with different levels of education. Highly educated people are more sensitive to quality of the product than less educated ones, and are willing to pay a higher price for a high quality product.

The marketer should therefore understand the cultural values of different market segments and prepare products and pricing strategies that target their needs.

2.5 Common methods in pricing

There are several approaches in setting prices, depending on the objective of the company or individual. As pointed out earlier, firms and individuals usually have profit at least as the main objective ,and so this must be reflected in the pricing system adopted. The pricing approach will be different in different marketing situations and in different environments. Some of the approaches used are briefly explained below.

a. Cost based pricing

i. Cost- Plus Pricing: This is probably the simplest method in which the retailer adds a markup on the cost price in order to arrive at the selling price. For example, if a retailer buys a sewing machine at Ksh. 3,500, he might add another Ksh. 500 so as to sell it at Ksh. 4,000. If his operating costs are Ksh. 200, he will therefore make a profit of Ksh. 300.

Markups are common nearly in all firms, both for goods and for services. Lawyers and other professionals typically price by adding a standard markup to their costs. Land Lords arrive at their rental charges after considering the various costs they incur, and then provide for some profit margin. Though very popular, this method is not the best as it usually ignores the market forces of demand and supply and the seller assumes that the demand will be there. Mark ups are generally higher on seasonal items (to cover the cost of not selling), specialty goods (such as men's suits), slower moving items (such as wheelbarrows) and items with inelastic demand (such as salt).

ii. Break-even Analysis and Target Profit Pricing: This involves the use of a graph to see where the total revenue and total cost curves intersect. The firm must produce at least the volume of sales which covers all the costs (both variable and fixed) and then set a target profit above the break-even point.

Higher prices means that a firm does not need to sell a very high volume to achieve the target profit. However, as the price increases, demand falls and so the firm may not be able to sell as much as it may have wished to break-even. In this case the firm must lower its production costs in order to charge the lower price that consumers expect. This is probably why many firms in Kenya are laying off workers so as to cut down the labour costs. Other firms are turning to cheaper sources of raw materials. For example, the East African Industries nowadays package Kimbo in plastic containers which are cheaper than metal containers. Efficiency is the key to successful pricing under this system, and production costs must be kept low, something not so easy in a developing country like Kenya.

Among retailers, break even analysis pricing can be seen in situations where the retailer adds up all the operating costs, administrative expenses, electricity, salespersons' salaries and rent in order to determine the correct price that covers all these costs. Selling at a price that does not cover these costs is a sure way of sending the retailer out of business. The markup price is therefore a function of cost price.

Kotler and Armstong (1993) argue that although break-even analysis and target profit pricing can help the company to determine minimum prices needed to cover expected costs and profits, they do not take the price - demand relationship into consideration. For effective use of this method, the company must consider the impact of price on the sales volume needed to realise target profits and the likelihood that the needed volume will be achieved at each possible price.

b. <u>Buyer based pricing</u>

Some companies nowadays base their prices on the product's perceived value. In this case, the buyer's perception of value (and not the seller's) is used. The company uses the non price variables in the marketing mix to build up perceived value in buyer's minds, and then charge accordingly.

This is why, for example, restaurants sell similar products at different prices depending on where they are located and the quality of services given. A cup of coffee, for example, might cost Ksh 50 in one restaurant on Moi Avenue while it will cost Ksh 10 at Kariakor market. (Both locations are in Nairobi City but carter for different classes of customers). A jacket might cost Ksh 500 along River Road, but go for Ksh 1,500 along Kaunda Street. This is the rationale behind the higher rates of fares charged by Nissans as compared to other public service vehicles for the same distances. Customers perceive Nissans as offering higher quality services - they are faster and more comfortable. For the same reason, a customer would buy a Nikon camera at Ksh

8,000 when he could have bought a Kodak camera at Ksh 2,500.

Kenyans also have the habit of buying some goods just because they are `made in Britain' or `made in Japan' as opposed to those made in Kenya. High price is associated with high quality, and a lady will boast that she bought a dress at Ksh 1,500 while her colleague bought hers at Ksh. 500.

Knowing and utilising this consumer's perception of quality can be very useful in setting prices. The firm must be careful not to set prices either too high or too low , as underpriced products, though they sell very well, produce less revenue than they would if prices were raised to the perceived value level (Lurin,1987).

c. <u>Competitor based pricing</u>

i. Going - rate pricing: In this case, the firm bases its price largely on competitor's prices, with less attention paid to its own costs or demand. In oligopolistic cases where there is a market leader, the smaller firms follow the market leader's prices and may sometimes charge slightly lower than the leader.

This method is very popular and in situations where demand elasticity is very hard to measure, firms feel that the going price represents the collective wisdom of the industry concerning the price that will yield a fair return. The Stagecoach Company, owners of the Kenya Bus Service, for example, usually take the lead in raising commuter fares in the city, and other companies including matatus set their fares sometimes lower than the Stagecoach fares. A recent example was in October, 1996, when the stagecoach hiked the fares for most city routes by over 20%. Matatus responded by maintaining the old fares and attracted a lot of commuters.

ii. Sealed-bid pricing. This is used when a company is bidding for a job, for example bidding for a construction job. Usually, bidders are invited to bid for some job, and each interested company quotes its price, without being sure what its competitors are quoting. The company is well aware that the lower the quotation, the higher the chances that it will win the contract (other factors being the same), yet it must also provide for some profits, after covering all the costs. The trick here would be to carefully determine the possible costs and then quote a reasonable price above these costs. Sealed-bid pricing thus involves setting price based on how the firm thinks competitors will price rather than on its own demand or costs.

This approach is not practiced by supermarkets as they do not engage in bidding. However, subcontractors who get jobs from bigger contractors may be seen as retailers and occassionally engage in sealed bid pricing.

2.6 <u>Research Trends</u>

Pricing plays a very important role in marketing, as it is one of the four P's in marketing mix, the others being product, promotion, and place. Understanding pricing is therefore very important to both consumers and the sellers. Consumer behaviour has been shown to be influenced by some pricing strategies, and so the ability of the seller to understand and respond appropriately to consumer perceived behaviour is very important. Marketing Science Models of choice behaviour have been developed which assume at least implicitly that shoppers are aware of both price and any temporary price reductions (Winner, 1986; Guadagni and Little, 1987, Roman and Bass,1989).

Supermarkets price their merchandise by applying markups that have become traditional with lines of merchandise. Supermarket margins vary widely than those used by department stores, but the practice is essentially the same (Dalrymple & Thompson,1969). Price differentials among supermarkets are small, but significant within local market areas. Holdren (1960), for example, found a difference of about 10% between the lowest-price chain and the highest priced independent supermarket in a midwestern country.

It must be remembered that price is only one of the many factors influencing a consumer's choice of supermarket, and unless the consumer sees significant price differentials among stores, price is not likely to be the determining consideration in the selection of a food market (Dalrimple & Thompson,1969). Research has shown chain prices to be lower than those of independents, and prices to be inversely related to the size of the organization (Holdren,1960; Nelson and Preston, 1966).

Past studies have suggested that about 50% of shoppers know the exact price of the items they have purchased (Allen, Harrell, and Hutt,1976; Cannover,1986).

However, recent studies (eg Zeithml,1988) have shown that price knowledge appears to be " considerably lower than necessary for consumers to have accurate internal reference prices for many products". Goldman (1980) has shown that the lower socioeconomic status consumers generally display a higher level of price knowledge and that consumers with low education level generally show a higher price knowledge level.

One explanation for this low knowledge is that shoppers may note prices at the point of purchase but do not try to remember them for any length of time (Dickson and Sawyer,1990).

The marketer, in his pricing strategy, must therefore consider these findings as a mistake in the pricing system can adversely affect the company's operations.

Studies done have focused on consumer perception of price, quality, and value (Zeithml, 1988) because these variables are considered pivotal determinants of shopping behaviour and product choice (Bishop,1984; Doyle,1984; Schechter, 1984, and Dickson, 1985). The literature on hedonic quality measurement (Court,1939; Griliches,1971) maintains that price is the best measure of product quality. Bishop (1984) argues that value in supermarket shopping is a composite of the higher level abstraction of variety, service, and facilities in addition to quality and price. Doyle(1984) identified convenience,freshness and time as major higher abstractions that combine with price and quality to produce value perception in Supermarket consumers. Pricing is an area that has attracted a lot of interest in research because of the impact it has in organizations (Kotler and Lilien, 1983). Even to date, there are no clear guiding principles for pricing and many decisions appear to be made in an ad hoc manner. Randall (in Bailey, 1978) observes that

> *"Many pricing decisions still have a distinctively `ad hoc' appearance, as if made without much prior thought and analysis. .... and much discussion on pricing these days still remains a theoretical flavour".*

Historically, price has been the major factor affecting buyer choice, and this is still true in poorer nations (Kenya included), among poor groups, and with commodity products (Kotler and Armstrong,1993). Price is the only element in the marketing mix that produces revenue, as all the other elements represent costs. Furthermore, pricing and price competition have been rated as the number one problem facing marketing executives. Prices are the key to the lifeblood (revenue) of an organization. Since the price charged to customers multiplied by the number of units bought gives the firm's revenue. Managers must therefore always strive to set competitive prices that are neither too high nor too low in order to maintain the existing customers and also attract new ones. if the price is set too high in the minds of the customers, the perceived value will be less than the cost and sales opportunities will be lost. Attempting to set the right price is the most stressful and pressure filled task of the marketing manager (Fleming, 1983).

The manager has to fully understand the environment within which he operates as well as the firm's pricing objectives. McDaniel and Darden (1987) have argued that to survive in today's highly competitive market place, companies need pricing objectives that are specific, attainable, and measurable. Firms, for example may base their pricing objectives on profits (to maximise profits), on volume (to make very big sales and be a market leader) or on stabilising the market (discourage new entrants).

Overall, there are other objectives which firms can also adopt. For example, prices can be temporarily reduced to create excitement for a product or to draw more customers into a retail store so that more sales can be made. In some cases, one product may be priced to help the sales of other products in the company's line. According to Stanton and Futrell (1987), one of the major tasks in retailing management is determining prices. They argue that the retailer's ultimate goal is to sell merchandise and services to final consumers, and the right price is critical in ensuring that this act takes place.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Framework

This study was descriptive in its framework, and followed a cross-sessional design. As Churchill (1983) points out, discriptive research is very useful in making predictions, which was one area persued by this study, as the study had one of its objectives to establish how price varied with consumer bukying behaviour. Green, Tull and Albaum (1988) assert that descriptive studies can be used in pricing research (such as competitor's price by geographic area). In this study, a survey of the pricing strategies and the factors affecting these strategies among the supermarkets was done, and variations of prices with age, size and location of the supermarkets made. This was done through monitoring price movements of selected consumer products in these supermarkets over the study period.

3.2 Population

The population of interest comprised all the supermarkets operating in Nairobi as at 31st March 1997. The rationare behind the choice was that supermarkets provide a cross-section of all sorts of products for a wide range of customer base. From a list of supermarkets listed in the Kenya Business Directory, it was found that out of the 96 supermarkets listed, 71 were in Nairobi, implying that 74% of all supermarkets in Kenya are found in Nairobi. Given that supermarkets provide customers service to all sorts of customers, their pricing strategies are very critical for their survival and it was worth considering them.

3.3 Sample

A sampling frame was constructed from an updated list of the Kenya Business Directory. Since it was not in the interests of the researcher to study the whole population, it was decided to study supermarkets located in the city centre, Westlands and Harligham areas. The main reason for this were that:

i) Out of the 71 supermarkets, 36 (51%) of these were in the area covered.

ii) Time and budget constraints did not allow for a broad based survey covering the entire population.

It was the feelling of the researche that the 36 supermarkets, among which were the country's three largest supermarkets, were a representative sample of the population.

Only supermarkets operational as at 31st March, 1997, were considered, which ruled out the possibility of studying supermarkets less than a month old.

To provide autonomy and avoid duplication of results, only one branch (where branches existed), mainly the headquarters, was visited and the appropriate manager interviewed. Thus the 36 supermarkets comprised only one Uchumi, one Nakumatt, and so forth.

3.4 Data Collection

3.4.1 The questionnaire

Two methods of data collection were used, namely questionnaire method and observations. The questionnaire, which was semi-structured and undisguised, was meant for collecting data for purposes of satisfying the first objective of this study as stated in chapter 1, while observation of prices was meant to satisfy the second objective.

The questionnaire comprised a total of 17 questions of which the first three were to determine the name of the supermarket, its age and size. This was very necessary for classification purposes. The other questions were for collecting specific data regarding use of pricing strategies and the determining factors. The questionnaire was filled in form of personal interview in which the researcher read out the question to the respondents (the managers and equivalents) and allowed the respondents to ask questions or seek clarifications where a question was not understood. The correct choice was then ticked as agreed by the respondent. This method was found very appropriate as it ensured that the respondents fully understood the questions they were being asked, and also provided an opportunity for the researcher to gather as much information as possible regarding pricing practices among the supermartets.

This method was also found very useful in ensuring that only the targeted respondents responded and avoided the possibility of the managers passing the questionnaire to less informed junior staff to fill them, a very common practice with "drop and pick later" method of questionnaire administration.

The researcher visited 34 of the 36 supermarkets but failed to trace the other two and it was believed that the two had either been closed down or changed names as is usually the case when a supermartet changes hands. A typical example of this was Rony supermarket which the researcher had seen along Tom Mboya street in February but when visited in April, he found it closed and another name Prambaki supermarket put in place of Rony. This showed that the supermarket had been sold to somebody else who was no preparing to reopen it. Of the 34 supermarkets, visited, four of them were found not to deal in consumer goods. These were:

K and A - fast foods

Sornvirco - motor vehicle spares

Sterlin - Kitchenware

Ashunt Engineers - motor vehicle spares.

The four were thus droped from the list, and so the sample comprised of 30 supermarkets. Out of these, 22 accepted to be interviewed and fill the questionnaire, giving a return rate of 73%. This rate was much higher than the ones found in previous studies such as Karemu (1993) 55%, Aosa (1992) 15% and Woodburn (1984) 7%.

3.4.2 Observations

Prior to conducting the research, the researcher had visited 20 of the supermarkets within the research area and observed prices of some of the items that were expected to be common among majority of the supermarkets, and also the ones expected to show great price variations among the supermarkets. The researcher came up with an initial ten product items as listed below, which afterwards were finally reduced to four by choosing the items with the highest variability and appearing in at least 50% of the supermarkets.

1. Joma cooking oil (2kg)
2. Kasuku Cooking oil (2kg)
3. Kimbo Cooking oil (2kg)
4. Kenya Pishori bismati rice (2kg)
5. Exe Wheat Flour (2kg)
6. Quencher orange drink (1L)
7. Elianto Corn Oil (1L)
8. Valon Jelly oil (250g)
9. Jogoo Maize Meal (2kg)
10. Pressol hair oil (2kg)

The four items finally selected for analysis were:

1. Kimbo (2kg)
2. Kasuku (2kg)
3. Kenya Pishori rice (Bismati) (2kg)
4. Joma (2kg)

CHAPTER IV
DATA ANALYSIS AND FINDINGS

4.1 Data analysis and presentation

Data analysis and presentation was made at four different levels.

The first level involved classification of the supermarkets according to size, age and location, for further analysis and comparisons. To get size, four criteria were used, namely the total trading floor space (in square feet), the number of employees, the number of check outs, and the number of branches. Although the sales turnover would have formed a fifth criterion, it was not used as non of the supermarkets disclosed its sales for the previous two years as requested. The number of branches was found to be most inappropriate as most supermarkets (though physically very large) had only one branch while it was possible to classify a very tiny supermarket as large just because it had more branches, as was the case with Star shops found in Caltex petrol stations, or Esso Supermarkets found in Esso petrol stations. The criterion on number of check outs was also rejected because it was realised that whereas check outs were supposed to mean cashiers at the exists, there were many other cashiers sellling directly to customers in the supermarkets and who were not included as checkouts. This was found to be the case at Jack and Jill where some items like radios and electrical equipment were bought and paid for directly to salesmen in the supermarket. Uchumi had a similar arrangement for mattresses and hardware.

The trading floor space and number of employees were found to be the most appropriate criteria, and the former was adopted. It is noteworthy that although one branch (where branches existed) was selected for purposes of questionnaire administration and price observation, all the four criteria listed here were based on the respective totals for all branches in Nairobi. This is because the size of a business entity can only be ascertained by considering its total operational capacity, as can be obtained from its total sales turnover, total trading floor space, or total number of employees, but not a fraction of the same.

The average trading floor space was obtained by adding up all the areas for the supermarkets, and supermarkets lying above the average were classified as large, while those below the average were classified as small. Because Uchumi was found to be very enormous in size as compared to the other supermarkets. The enormous size of Uchumi as compared to the other supermarkets (had 110,000sq feet of the total 297,000) it was decided to leave it out of the total as it tended to pull the average too high towards its size, making only three supermarkets qualify as large. However, when dropped, the average came down from 13,500 to 9,643 sq. feet, and six supermarkets qualified. This was found to be consistend with research as Dalrymple and Thompson (1969) observe that "any classification of retails is strictly arbitrary and the figure cited merely a convenient criterion for classifying data"

Classification according to age was done by adding up the ages of the 22 supermarkets and getting the average, so that supermarkets above the average (13.7 years) were classified as old, while those below the average were categorised as young.

The supermarkets were finally categorized into two locations, Area 1 (City centre) and Area 2 (Westlands and Hurligham. This is because the two geographical regions were thought to be different in terms of the general trading environments (types of customers, overhead costs, parking space and so on).

The second level involved analysing the general questions as raised in the questionnaire, and presenting them as percentages on the basis of the total supermarkets, size, age, or location of the supermarkets. These results are given in appendices 3a, 3b, 3c and 3d.

The third level involved constructing 5-point Likert profiles to assess the importance attached to the various pricing strategies, the factors affecting the pricing strategies, importance of the various aspects of pricing and the importance supermarkets attached to the various competitors. Data for these was obtained respectively from questions 8, 13, 16 and 17 of the questionnaire.

Analysis of the Likert profiles indicated the pricing factors commonly used by supermarkets in Nairobi, the most important factors affecting these pricing strategies, the importance these supermarkets attached to the various pricing aspects, and the importance of the various competitors.

The final level of the analysis involved testing the variation of prices of the selected consumer goods with the age, size or location of the supermarkets. Testing the signsificance of the differences was done using a two-tailed student t-test at 99%, 95% and 90% levels of confidence, Kendall tau analysis was also done at 99% and 95% confidence levels, and the strength of the correlation coeeficients to relate price with age and size of the supermarket was then done.

4.2 Classification of the supermarkets

In this study, the supermarkets were categorized in terms of size, age and location, for purposes of comparisons of the various pricing strategies and factors affecting them.

4.2.1 Categorization by size

To get the size, five criteria were adopted, namely the number of branches, number of checkouts, number of employees, total trading floor space (square feet) and sales turnover.

None of the supermarkets visited volunteered to disclose its sales turnover for the years 1995 and 1996 as requested in the questionnaire, hence this criterion was dropped. The other four criteria were applied by summing up their respective units and getting the average, so that supermarkets above the threshold (9,643 sq.feet) were categorised as large, while those below the threshold were categorised as small. It was observed that Uchumi Supermarket clamied close to 40% in terms of the total trading floor space, number of employees, number of checkouts, as well as the number of branches. This tended to pull the mean so high that many supermarkets fell below the threshold. For example, when Uchumi was included, the mean trading floor space came to 14,875 sq. feet and average number of employees 131, making only 3 supermarkets qualify as large. The number of checkouts was also quite high (13), making only 4 supermarkets qualify as large under the criterion.

To afford a fair categorization, it was found prudent to drop Uchumi from the average and this enabled the average trading floor space and the average number of employees to drop to 9,643 sq. feet and 79 employees respectively, making 6 supermarkets qualify as large in terms of trading floor space. Since the trading floor space appears to make more relevance in terms of size, it was decided to adopt this criterion in classification.

The number of branches was found inappropriate as most of the supermarkets had only 1 (the only one) branch and in any case having one branch does not necessarily mean being smaller than one with two or even three branches, as is the case with Esso Supermarkets, which are many tiny stores scattered in most of the Esso petrol stations in the city. The final categorization is shown below.

G1 = Large (L) [n = 6]

Code	Name	area (sq.feet)
L1	Uchumi	110,000
L2	Nakumatt	70,000
L3	Jack and Jill	30,000
L4	Tusker	13,000
L5	Jamia	11,000
L6	Chandarana	10,000

G2 = Small (S) [n = 16]

S1	Westlands Supermarket	9,000
S2	General foods	7,500
S3	Makro	7,500
S4	Vishal	6,000
S5	Westlands Gen. Store	6,000
S6	Continental	5,500
S7	Tristar	5,000
S8	Esso	4,900
S9	Shabana	4,000
S10	Country Mattresses	3,000
S11	La Baguette	2,400
S12	Ebrahims	2,300
S13	African Grocers	2,000
S14	Hot & Spicy	1,300
S15	Ladywood	1,100
S16	Vijiko	1,000

4.2.2 <u>Categorization by age</u>

The supermarkets were also catogorised in terms of age by summing up the ages of the 22 supermarkets and getting an average, so that supermarkets above the average (13.7 years) were categorised as old and the ones below the average as young. The following were the two categories.

G2 = Young (y) [n = 12]

Code	name	age (yrs)
Y1	La Bagrette	0.50
Y2	Shabana	0.50
Y3	Vishal	1.0
Y4	Tristar	4.0
Y5	Jamia	5.0
Y6	Esso	5.0
Y7	Tusker	7.0
Y8	Ladywood	7.0
Y9	Chandarana	7.0
Y10	Country Mattress	8.0
Y11	Hot and Spicy	8.0
Y12	Continental	12

G1 = Old (O) [n = 10]

Code	name	age (yrs)
O1	Jack & Jill	14
O2	Makro	14
O3	Westlands Supermarket	15
O4	Nakumatt	16
O5	Uchumi	22
O6	Vijiko	24
O7	Ebrahim	27
O8	General Foods	34
O9	African Grocers	35
O10	Westlands Gen. Stores	37

From this list, we note that only 27.3% of the existing supermarkets were established before 1980 (more than 17 years old), 31.8% were established in the 1980s (aged between 7 and 17 years) while the remaining 40.9% were established in the 1990s (less than 7 years old). This shows the rate at which supermarkets are coming up, presenting new challenges to the existing supermarkets.

It is also important to note that save for Uchumi, all the other five supermarkets categorised as large were established after 1980. This proves the earlier assumption given in chapter 1 that size should not be related with age (old age does not necessarily imply large size) hence the assumption holds true.

4.2.3 Categorization by location

The third categorization was in terms of location, in which all supermarkets in the city centre were grouped as Area 1 (A1) while those in Westlands and Hurligham areas were put together and designated Area 2 (A2). The basis for this categorization was that supermarkets in the city centre were deemed to serve mainly low income earners, while those in Westlands and Hurlingham serve middle and high income earners. It was also felt that given that majority (83%) of the large supermarkets were located in the city centre, it was necessary to group supermarkets in this area (city centre) together and those outside the city centre separately. The general trading environment of the two areas were thus expected to be different. The two categories were as follows:

Area 1 (A1) (n = 12)	Area 2 (A2) (n = 10)
1. Vijiko	1. Westlands Supermarket
2. Tusker	2. Ladywood farmstore
3. Vishal	3. Continental
4. Jack & Jill	4. Shabana
5. Country Mattress	5. Esso
6. Jamia	6. Westlands Gen. Store
7. Tristar	7. La Baguette
8. Ebrahims	8. Hot & Spicy
9. Nakumatt	9. Chandarana
10. Uchumi	10. African Grocers
11. Makro	
12. General Stores	

It is observed that except Chandarana, all the five supermarkets classified as large are found in area 1.

4.3 General Findings

A summary table of these findings is given in appendices 3a, 3b, 3c and 3d. These findings were obtained from responses given to the structured and semi-structured questions in the questionnaire.

Of the 22 supermarkets that responded, 81.8% indicated that the suppliers delivered orders to them at no cost. Those which said that they paid something for the transport (4.5%) said that this was only in cases where the merchandise was from outside Nairobi, say from Mombasa or overseas. In very rare cases did the supermarkets pay for transportation. In terms of age, 80% of the older supermarkets said that they got supplies at no extra cost, as opposed to 83% for the young supermarkets. 87.5% of the small supermarkets said that they got supplies at no extra costs while only 67% of the large supermarkets admitted this. This may be because some of the large supermarkets had their own transport systems and also frequently got merchandise from outside Nairobi, for which they had to pay for transport.

Overall, no single supermarket reported highest sales at mid month, while a total of 77% said that highest sales were made during the last and first weeks of the month. This supports the argument that majority of Kenyans do mass shopping at the end of the month or the first week of the succeeding month. 30% of the old supermarkets and also 30% of supermarkets located outside the city centre (Area 2) reported that their sales were evenly spread through the month. This may be because supermarkets in area 2 (Westlands and Hurligham) serve a higher income group than the supermarkets in the city centre, hence customers can afford to shop almost at any time of the month. Over

90% of the supermarkets whether categorised by age, size, or location, reported that they made highest sales during December, (Christmas), followed by Easter. This again supports the view that majority of Kenyans do mass shopping during special occasions such as Christmas. Only one supermarket reported that its sales were highest from June to early December, because it specialised in selling to hotels and related institutions, which normally have this period as their high season (when more tourists are expected).

In terms of the persons in charge of setting price, 31.8% said that prices were set by the marketing manager, 18% said that prices were set by the purchasing officer, or the marketing manager and the accountant. 22.7% said that prices were set by the proprietor. This last strategy was more so for the old supermarkets which reported 20%, as opposed to 8.3% reported by the young supermarkets. This may be because of the conservative nature of many old supermarkets which continue to be run as family businesses and are not ready to employ or give pricing responsibility to somebody else other than the owner himself.

50% of the supermarkets reported that they reduced prices of most items during special occasions such as Christmas, although many of them said that although they reduced prices, this was mainly for slow moving items which needed to be cleared, or items about to expire. 18% said that they reduced prices of some items and at the same time increased prices of others to "balance out" as one marketing manager put it. Only 18% said that they were not very sensitive to special occasions and did not have to wait for these seasons to alter prices. This view was strongly supported by the small supermarkets (25%). Only 9.1% of the supermarkets supported the view that when introducing a new item, they either started with a high or a low price and either reduced it or increased it respectively, while 81.8% said that they just set a reasonable price that would give some profit. 16.7% of large supermarkets reported that they started with a low price and gradually raised it, as opposed to 6.25% reported by the small supermarkets.

Among the 22 supermarkets studied 8 of them had more than one branch in the city and of these, 6 (75%) reported that their prices were the same in all city branches, while the rest reported that their prices differed from branch to branch.

4.4 Use of Pricing strategies

The analysis of the use of various pricing strategies showed that nearly all supermarkets used one (fixed) price for their products and did not allow for negotiation of the price. It was only in a few supermarkets in which some regular customers who purchased in bulk negotiated for a price cut. Unit pricing was another highly used strategy by supermarkets. Each item was priced individually and cases of combining items and selling together were only found with some cutlery. The admission was that these cutlery, especially cups and mugs, were packed that way by the manufactures and so the supermarkets did not break them up into units.

Odd pricing was another commonly used strategy, which was a form of psychological pricing strategy in which items were priced at odd numbers such as 499 instead of 500. The use of this strategy was declining because of lack of coins in the money market, and although many supermarkets admitted that it was a very good pricing strategy, they were forced to round up their prices to a zero or 5 so as to minimise problems of change, say like when a customer gave Shs 400 for an item marked Shs 399 and wanted the balance of Sh 1, it was easier to price the item at either Shs 395 or just Sh. 400.

Giving discounts to customers was also important, but rather than give direct cash or commodity discounts, many supermarkets preferred to give special offers for some commodities so that every customers could benefit. These offers were mainly given at month ends when more customers were expected to make their purchases. These results are shown in table 4.1(a) on the next page.

Table 4.1a: Use of pricing strategies: all supermarkets

Strategy		Sum of scores (n = 22)	Mean
1.	Give discount to customers	52	2.36
2.	Use uniform price in all branches (n = 8)	30	3.72
3.	Use different prices in each locations (n = 8)	13	1.62
4.	Skim the cream	36	1.63
5.	Penetration	60	2.72
6.	One price	102	4.63
7.	Flexible price	31	1.41
8.	Unit pricing	100	4.55
9.	Price lining	44	2.00
10.	Leader pricing	35	1.59
11.	Odd pricing	58	2.64

Table 4.1(a), which was constructed from the questionnaire, shows that skim the cream, leader pricing and flexible prices strategies were rarely used by supermarkets in Kenya. Flexible price ranked lowest (mean = 1.41).

Of the eight supermarkets that had two or more branches, it was found that uniform price in all branches was the commonest pricing strategy (mean = 3.72), while use of different prices was rare. Different prices were only used in cases where the branches dealt in different lines of merchandise. For example, Westlands supermarket which has branches such as Healthy U (Sarit Centre) operating in health products and Nature's Choice (Yaya Centre) specializing in delicacies, uses different prices in each branch, in which the respective managers determine the products, but still consult one another on special matters. When the supermarkets were classified according to age and the frequency at which they use various pricing strategies tested, it was observed that older supermarkets gave discounts to customers more than the young supermarkets (mean scores were 3.0 and 2.25, respectively), while the young supermarkets relied more on penetration strategy (mean = 2.75) than the older supermarkets (mean = 2.00). It was also realised that unit pricing was more commonly used among the young supermarkets (mean = 4.83) than the older supermarkets (mean = 4.3). Leader pricing seems to be stronger among the older supermarkets than the young ones (mean score were 2.6 and 1.25 respectively). The results are shown in table 4.1b.

Table 4.1(b): Frequency of use of pricing strategies by age.

Strategy	Old Supermarkets (n=10)		Young Supermarkets (n = 12)	
	Sum	Mean	Sum	Mean
1. Give discount to customers	30	3.0	27	2.25
2. Use uniform price (n=4)	12	3.0	14	3.50
3. Use different prices (n=4)	8	2.0	9	2.25
4. Skim the cream	14	1.4	18	1.50
5. Penetration	26	2.6	33	2,75
6. One price	44	4.4	59	4.91
7. Flexible price	14	1.4	17	1.41
8. Unit pricing	43	4.3	58	4.83
9. Price lining	22	2.2	23	1.92
10.Leader pricing	26	2.6	15	1.25
11. Odd pricing	30	3.0	32	2.67

When use of the various pricing strategies was tested according to the size of the supermarkets as shown in table 4.1c, it was found that large supermarket had a higher frequency in terms of the use of the various pricing strategies than the young supermarkets. This may be explained by the fact that large supermarkets have a wider variety of merchandise and engage in a lot of business activities as compared with the small supermarkets, hence they are more likely to apply most of the known pricing strategies. However, small supermarkets scored higher in terms of giving discounts to customers (mean = 2.61) than the large supermarkets (mean = 1.67), and also scored higher in their use of penetration strategy (mean = 3.00) than the large supermarkets (mean = 2.00).

Table 4.1c: Use of pricing strategies by size

Strategy		Large Supermarket (n=6) Sum	Mean	Small Supermarkets (n=16) Sum	Mean
1.	Give discount to customers	10	1.67	42	2.61
2.	Use uniform price n=5(3)	24	4.80	6	2.00
3.	Use different price n=5(3)	6	1.20	11	3.67
4.	Skim the cream	9	1.50	24	1.50
5.	Penetration	12	2.00	48	3.00
6.	One price	30	5.00	73	4.38
7.	Flexible price	6	1.00	25	1.56
8.	Unit pricing	28	4.67	73	4.38
9.	Price lining	12	2.00	29	1.81
10.	Leader pricing	16	2.67	24	1.50
11.	Odd pricing	17	2.83	44	2.75

When the supermarkets were categorized into two locations (areas) in which area 1 (A1) represents supermarkets found in the city centre and area 2 (A2) represents supermarkets found in Westlands and Hurligham, it was found that while use of one price still predominated the two areas, there was greater flexibility with supermarkets found in area 2 (mean = 1.50) as compared to in area 1 (mean = 1.30). It was also noteworthy that more supermarkets outside the city centre gave discounts to customers (mean=2.5) than those in the city centre (mean=2.17). This may be explained by the fact that majority of supermarkets in area 2 were small (9 of the 16 supermarkets classified as small were in area 2) and had stronger relationships with their customers than did supermarkets in the city centre. It was also found that supermarkets in the city centre had a higher frequency of use of fixed prices (mean = 4.8) than supermarkets in Westlands and Hurligham (mean = 2.0), which used different prices in each branch.

This was perhaps, as explained above, because branches in these areas (Area 2) tended to specialise in different lines of merchandise and it was difficult to use uniform prices.

The results are shown in table 4.1(d).

Table 4.1(d) Use of strategies of location

Strategy	Area 1 (n = 12) Sum of scores	mean	Area 2(n=10) Sum of scores	mean
1. Give discount to customers	26	2.17	25	2.5
2. Use of uniform price(n=5(3)	24	4.80	6	2.0
3. Use of different prices (n=5(3)	5	1.0	12	4.0
4. Skim the cream	18	1.50	15	1.50
5. Penetration	28	2.67	28	2.80
6. One price	53	4.41	50	5.0
7. Flexible price	16	1.30	15	1.50
8. Unit pricing	54	4.50	42	4.20
9. Price lining	25	2.08	17	1.70
10. Leader pricing	27	2.25	18	1.80
11. Odd pricing	33	2.75	27	2.70

4.5 Assessment of the pricing factors

When the supermarkets were asked to indicate the importance of the various pricing factors in as far as they affected their pricing strategies, it was found that competition was the most important factor (with a mean score of 4.05 followed by handling and selling costs (mean = 3.82), demand consideration (mean = 3.50) and quantity discounts from suppliers (mean = 3.36) in that order, while price lining was ranked last (mean = 2.05). These results are shown in table 4.2(a).

Table 4.2(a): Importance of pricing factors: all supermarkets

	Factors	All supermarkets (n = 22) Sum	Mean
1.	Demand consideration	77	3.50
2.	Competition	89	4.05
3.	Resale price maintenance	69	3.14
4.	Leader pricing	46	2.09
5.	Price lining	45	2.05
6.	Odd pricing	60	2.73
7.	Multiple unit pricing	49	2.23
8.	Handling & selling costs	84	3.82
9.	Quantity discounts from suppliers	74	3.36

What this means is that retail supermarket put a lot of emphasis on competition, especially at this time when so many new supermarkets are coming up. They also have to consider the demand for their products. In times of high demand of a product, the supermarkets put all efforts to ensure sufficient stocks are available, and this is why many large supermarkets like Uchumi have godowns to which supplies are first stocked before distributing them to the branches depending on demand. Others have basement stores where they stocked merchandise and release it slowly to the shelves.

The importance of handling and selling costs cannot be overemphasised. The supermarkets have to ensure that the prices of their merchandise enable them to generate sufficient revenue to at least cover these costs.

An additional factor that many managers expressed was the shelf life of some commodities. There are some commodities which are perishable, and the managers have to constantly monitor the expiry dates of these commodities and make appropriate price adjustments (usually reductions) so as to sell them off and beat expiry dates. This is because the managers realise that it is better to sell off the product and at least recover some of the costs than to risk running into total loss when the product's shelf life expires and has to be disposed off.

Broken items such as cutlery are sometimes selected and sold at a throw away price to interested customers. Faculty items that are discovered after delivery, because it is not easy to inspect every item when bought in bulk, are also placed on special prices.

When the importance of the various pricing factors was tested by age of the supermarket, it was found that old supermarkets placed more emphasis on all the various factors affecting pricing strategies than did the young supermarkets, except that the young supermarkets scored higher for odd pricing strategies than the older supermarkets. The results are shown in table 4.2(b). We might therefore argue that the various factors affecting pricing strategies are felt more by the older supermarkets than the young supermarkets. This is because old supermarkets are more evolved in terms of their business operations and application of the various pricing strategies more pronounced than for young supermarkets, hence the pricing factors have more impact on the older than the young supermarkets.

Table 4 2(b): Importance of Pricing factors by age

Factors	Young Supermarkets(n=12) Sum	Mean	Old Supermarkets (n=10) Sum	Mean
1. Demand consideration	37	3.08	36	3.60
2. Competition	44	3.67	45	4.50
3. Resale Price maintenance	35	2.91	30	3.00
4. Leader pricing	14	1.17	26	2.60
5. Price Lining	20	1.67	22	2.20
6. Odd Pricing	32	2.67	24	2.40
7. Multiple Unit pricing	23	1.91	22	2.20
8. Handling & Selling costs	44	367	39	3.90
9. Quantity discounts & suppliers	42	3.50	40	4.00

When the importance of the factors was tested according to size of the supermarket (Table 4.2c) it was found that small supermarkets were more affected by the factors in their pricing strategies than the older supermarkets, except in leader pricing where large supermarkets scored an average of 2.50 while the small supermarkets scored 1.56.

A logical conclusion here is that small supermarkets are affected more in their pricing strategies by the various factors than the large supermarkets. The reason for this may be because large supermarkets have a higher buffering effect (ability to absorb and neutralise) against the various factors than the small supermarkets.

Table 4. 2(c) Importance of pricing factors by size

	Large Supermarkets (n=6)		Small Supermarkets (n=16)	
	Sum	Mean	Sum	Mean
1. Demand consideration	18	3.00	54	3.38
2. Competitions	26	4.33	68	4.25
3. Resale Price maintenance	15	2.50	50	3.13
4. Leader pricing	15	2.50	25	1.56
5. Price lining	11	1.83	32	2.00
6. Odd pricing	15	2.50	41	2.56
7. Multiple unit pricing	11	1.83	33	2.06
8. Handling & selling costs	21	3.50	61	3.81
9. Quantity discounts from supplier	19	3.17	57	3.56

When the importance of the various factors affecting pricing strategies was tested , it was found that competition was much more important for supermarkets in the city centre than for supermarkets in Area 2 (means scores were 4.33 and 3.7, respectively), just as handling and selling costs were much more important in the city centre (mean = 3.83) than in Area 2 (mean = 3.1). Demand consideration was much more important in Area 2 (mean = 3.7) than in the city centre.

This is because in the city centre, there are many (usually large) supermarkets in competition, hence this factor becomes very important. Demand consideration is very important for supermarkets outside the city centre because they have more concern for their customer needs than those in the city centre, hence they care agreat deal to ensure that they meet customer demands. This is further corroborated by the high score of customer satisfactionas an attribute of pricing by supermarkets outside the city centre (table 4.3(d)).

Although it is hard to explain why handling and selling costs are an important factor affecting pricing strategies among supermarkets in the city centre than those in Westlands and Hurlingham, we may argue that given that most supermarkets in the city centre are very large and employ a lot of salespeopleand other resources as compared to those outside the city centre, their operating costs become very important factor in determining prices for their merchandise.

These results are shown in table 4.2(d).

Table 4.2(d): Importance of pricing factors by location

Factor	Area 1 (n=12) Sum	Mean	Area 2 (n=10) Sum	Mean
1. Demand consideration	29	2:42	37	3.7
2. Competition	52	4.33	37	3.7
3. Resale price maintenance	39	3.25	21	2.1
4. Leader pricing	27	2.25	13	1.3
5. Price lining	27	2.25	16	1.6
6. Odd pricing	24	2.0	27	2.7
7. Multiple unit pricing	21	1.75	23	2.3
8. Handling & selling costs	46	3.85	31	3.1
9. Quantity discounts from suppliers	45	3.75	31	3.1

4.6 Importance of the various aspects/attributes of pricing

The supermarkets were asked to indicate the importance of the various aspects/attributes of pricing. When ranked, it was found that customer satisfaction was the most important aspect (mean = 4.95) followed by reliability of suppliers (mean=4.59), quality of the product (mean =4.50) and location of the supermarket (mean =4.41), in that order.

Profit margin was found not to be quite an important aspect (mean = 3.54) while price guidelines from the suppliers scored the lowest (mean =2.36). The explanation given was that the supermarkets preferred to maintain a certain fixed proportion of the profit (say 10%) but put a lot of emphasis on satisfying the customers. Satisfaction of customers includes ensuring that the customer gets what he wants at the right time, in the right quantity, and at a reasonable price, hence the importance of having reliable suppliers. Although the supermarkets got price guidelines (recommended prices) from the suppliers, it was established that majority of the supermarkets did not rely on the recommended price to a great extent. However, some large companies like Cola-Cola monitored the retail prices for their products to ensure that what they recommended was followed and so products supplied by these large (usually international) manufacturers showed very little variations across the supermarkets. These results are shown in table 4.3(a).

Overall, it seems that all these aspects/attributes of pricing are very important to supermarkets as they all scored above average (lowest mean was 3.36).

Table 4.3(a): Importance of aspects/attributes of pricing

	All supermarkets n = 22 Sum	Mean
1. Number of supermarkets presently in competition	90	4.09
2. Quality of the product	99	4.50
3. The profit margin	78	3.54
4. Customer satisfaction	109	4.95
5. Volume of sales	89	4.04
6. The expectation that more customers will do their shopping	85	3.86
7. Location of the supermarkets	97	4.41
8. Reliality of suppliers	101	4.59
9. Price guidelines from suppliers	74	3.36

When ranked according to age of the supermarkets, it was established that young supermarkets gave maximum emphasis on customer satisfaction. The young supermarkets scored much higher (mean =4.58) in terms of importance of volume of sales as compared to the old supermarkets (mean =3.90), while old supermarkets scored slightly higher for profit margin (mean =3.60) than the small supermarkets (mean =3.50).

Table 4.3b also shows that young supermarkets attach alot of importance to expectation that more customers will come to do shopping than the old supermarkets (mean scores were 4.25 and 3.40, respectively). This implies that young supermarkets are more sensitive to weekends, month ends, Christmas and other related periods when more customers are expected to do shopping.

Table 4.3(b): Pricing attributes/aspects by age

	Old supermarkets (n=10) Sum	Mean	Young supermarkets (n=12) Sum	Mean
1. No. of supermarkets currently in competition	44	4.40	46	3.83
2. Quality of the product	45	4.50	54	4.50
3. Profit margin	36	3.60	42	3.50
4. Customer satisfaction	49	4.90	60	5.00
5. Volume of sales	39	3.90	55	4.58
6. Expectation that more customers will do their shopping	34	3.40	51	4.25
7. Locations of the supermarket	42	4.20	55	4.58
8. Reliability of suppliers	44	4.40	57	4.75
9. Price guidelines from suppliers	35	3.50	39	3.25

Ranking the various aspects/attributes according to the size of the supermarkets as shown in table 4.3(c), it was found that small supermarkets attached more importance to the number of supermarkets currently competing with them than the large supermarkets (mean scores were 4.56 and 3.67, respectively). Profit margin was also ranked much higher (mean =3.88) by small supermarkets than did the large supermarkets. It was also realised that small supermarkets relied more on price guidelines from suppliers than the large supermarkets. This may be because large supermarkets enjoy more autonomy than small supermarkets in terms of their bargaining ability with the suppliers.

Table 4.3(c): Pricing attributes/aspects by size

	Large Supermarkets (n = 6) Sum	Mean	Small Supermarkets (n = 16) Sum	Mean
1. No of supermarkets currently in competition	22	3.67	73	4.56
2. Quality of the product	26	4.33	73	4.56
3. Profit margin	16	2.67	62	3.88
4. Customer satisfaction	36	5.00	79	4.94
5. Volume of sales	24	4.00	65	4.06
6. Expectation that more customers will do their shopping	18	3.00	67	4.19
7. Location of the supermarket	26	4.33	71	4.44
8. Reliability of the suppliers	29	4.83	77	4.81
9. Price guidelines from suppliers	18	2.50	55	3.44

When the various aspects/attributes were tested according to the location of the supermarkets (table 4.3(d) it was realised that customer satisfaction scored higher (mean =5.0) for supermarkets in area 2 than those in area 1 (mean =4.92), while quality of the product scored 4.7 for supermarkets in area 2 as compared to a mean score of 4.33 by supermarkets in area 1. This implies that supermarkets located outside the city centre tend to have more concern for the customer than those in the city centre.

Table 4.3(d): Pricing aspects/attributes by location

	Area 1 (n=12)		Area 2(n=10)	
	Sum	Mean	Sum	Mean
1. Number of supermarkets currently in competition	52	4.33	34	3.4
2. Quality of the product	52	4.33	47	4.7
3. Profit margin	30	2.50	38	3.8
4. Customer satisfaction	59	4.92	50	5.0
5. Volume of sales	50	4.25	38	3.8
6. Expectation that more customers will do their shopping	42	3.50	43	4.3
7. Location of the supermarket	51	4.25	46	4.6
8. Reliability of suppliers	52	4.33	49	4.9
9. Price guidelines from suppliers	38	3.16	36	3.6

4.7 Importance of the various competitors

When the various competitors were ranked in terms of importance, it was established that other supermarkets (as competitors) were the major threats to each supermarket (mean = 3.91), while other retail outlets scored just above average (mean =2.60). Hawkers were found to be the least important, scoring a mere mean of 1.72. Hawkers were seen to be a nuisance rather than a threat as they blocked accesses to the supermarkets thereby making it difficult for customers to find their way in easily. These results are shown in table 4.4(a).

Table 4.4(a): Importance of various competitors

	Competitor	All supermarkets (n = 22) Sum	Mean
1.	Other supermarkets	86	3.91
2.	Other retail shops	58	2.60
3.	Hawkers	38	1.72

When the competitors were ranked according to age of the supermarket as shown in table 4.4(b), it was realised that old supermarkets scored higher in all the categories of competitors than the young supermarkets. This may be interpreted to mean that older supermarkets feel more threatened by the various competitors than the young supermarkets. This may be because having been in business for a long time, these old supermarkets feel threatened when other supermarkets are coming up. They also feel threatened by other retailers as well as hawkers, although it must be emphasised that at least for now, hawkers are considered by many supermarkets as being more of a nuisance than competitors. However, supermarkets cannot completely ignore their impact and in the future they might be a force to reckon with.

Table 4.4(b): Importance of competitors by age.

	Old supermarkets (n = 10) Sum	Mean	Young supermarkets (n = 12) Sum	Mean
1. Other supermarkets	42	4.20	41	3.41
2. Other retail shops	28	2.80	32	2.67
3. Hawkers	20	2.00	18	1.50

When the competitors were ranked according to size of the supermarkets, it was found that while large supermarkets ranked other supermarkets higher (mean =3.67) as compared to a mean of 3.25 (for small supermarkets), small supermarkets considered other retail shops as more threatening (mean =2.87) than did large supermarkets (mean =2.00). This may be because small supermarkets are mainly located in the midst of other powerful retailers dealing in the same merchandise as the small supermarkets, and thereby posing obvious competitive threats. These results are shown in table 4.4(c)

Table 4.4(c): Importance of competitors by size

	Large supermarket (n = 6)		**Small supermarket (n = 16)**	
	Sum	**Mean**	**Sum**	**Mean**
1. Other supermarkets	22	3.67	52	3.25
2. Other retail shops	12	2.00	46	2.87
3. Hawkers	12	2.00	30	1.88

When the supermarkets were categorised into two locations and the importance attached to the various competitors assessed, as shown in table 4.4(d), it was found that supermarkets located in the city centre felt more threatened by other supermarkets than supermarkets located outside the city centre (mean scores were 4.08 and 3.8, respectively). Supermarkets outside the city centre, though still ranking other supermarkets highly (mean =3.8) as a threat, ranked other retail stores higher (mean =3.4) than did supermarkets in the city centre (mean =2.17). This may be due to the generally small size nature of the supermarkets outside the city centre, where they are located in the midst of numerous other powerful retail shops dealing in almost the same merchandise and offering as high quality customer services as the supermarkets themselves. This was found to be the case for supermarkets located at Yaya Centre and Sarit Centre. Their smallness also means that they did not enjoy a lot in terms of bulk purchases and low operating costs, thereby exposing them to the other retail stores. Perhaps this also explains why the supermarkets in Westlands and Hurligham (Area 2) ranked hawkers higher (mean =1.9) than supermarkets in the city centre (mean =25).

Table 4.4(d): Importance of competitors by location

	Area 1 (n=12)		Area 2 (n = 10)	
	Sum	Mean	Sum	Mean
1. Other supermarkets	49	4.08	38	3.8
2. Other retail shops 26	2.17	34	3.4	
3. Hawkers	15	1.25	19	1.9

4.8 Analysis of specific consumer goods

Ten items were initially selected for observation. These were the ones expected to be purchased by most households, as they were mainly foodstuffs or body lotions. They were also expected to be available in most of the supermarkets.

The researcher visited twenty supermarkets within the area of the study and checked the availability and prices of the items. The sample variances of the items were then calculated, and the results were as presented in table 4.5 below.

Table 4.5: Consumer goods

	Item	No. of Observations	Sample Variance
1.	Joma (2kg)	11	96.82
2.	Kasuku (2kg)	13	128.82
3.	Kimbo (2 kg)	15	292.30
4.	Kenya Pishori Rice (2kg)	11	152.52
5.	Exe wheat flour (2kg)	15	19.45
6.	Quencher drink (1L)	6	78.85
7.	Elianto Corn Oil (1L)	14	53.00
8.	Valon 250g	10	29.59
9.	Jogoo Maize Meal (2kg)	14	3.69
10.	Pressol 70g	7	0.94

From the table, it was observed that Kimbo, Exe, Elianto and Jogoo were the most abundant. However, Exe and Elianto had very low sample population variances as compared to Joma and Kasuku, which were also available in at least 50% of the supermarkets. Since the idea was to come up with four items for final analysis, it was decided to select the best four items with the highest variances, and appearing in at least 50% of the supermarkets.

The following product items were thus selected:

	Item	Supplier
1.	Kimbo (2kg)	East African Industries
2.	Kenya Pishori Rice (2kg)	Mwea Rice Mills
3.	Kasuku (2kg)	Kapa Oil Refineries
4.	Joma (2kg)	BIDCO Oil Refineries

As shown above, all the four product items were supplied by different companies and so were subject to different supply conditions. The choice of specific packages (2kg) of each item was important as it enabled the comparison of prices for the same quantity of the given item across the supermarkets.

Prices of the four items were then observed in each of the 22 supermarkets that cooperated in filling the questionnaire (Prices of supermarkets that did not cooperate were not observed).

It was realised that Kimbo appeared in 19 of the supermarkets, Kasuku was available in 17 of the supermarkets, while Pishori and Joma were available in 15 of the supermarkets. A list of the prices observed in each supermarket are shown in table 4.6.

Table 4.6: List of prices observed

	Supermarket	Kimbo (2kg)	Kasuku (2kg)	Pishori Rice (2 kg)	Joma (2 kg)
1	Vijiko	179	165	139	169
2	Tusker	175	155	140	165
3	Vishal	170	155	145	150
4	Jack & Jill	175	159		159
5	Country	175	159	150	149
6	Jamia	185	169		159
7	Tristar	179	158		
8	Ebrahim's				
9	Westlands	195		150	
10	Ladywood	230	188	155	155
11	Continental	185	185	149	175
12	Shabana	186	160	150	155
13	Esso			175	
14	Nakumatt	169	159	130	149
15	Westlands Gen.	185	199	145	178
16	La Baguette				
17	Hot & Spicy	200			
18	Uchumi	175	150	139	159
19	Chandarana	179.5	175	139	159
20	African grocers	185	170	165	165
21	General Foods	185	185	160	
22	Makro	178	155		168
n		19	17	15	15

A summary of the variances (S^2) and availability of the commodities before (20 supermarkets) and during the actual research (22 supermarkets) is shown below:

Table 4.7: Variance of the selected product items

	Before n	Before S^2	Actual n	Actual S^2
Kimbo	15	292.3	19	186.20
Kasuku	13	128.80	17	168.50
Pishori	11	152.52	15	133.20
Joma	11	96.80	15	80.50

4.9 Analysis of the Prices of the selected product items

Prices of the four items were observed in all the 22 supermarkets and categorised in terms of age, size and location of the supermarkets, for purposes of statistical tests. Table 4.8 below shows the distribution of the items according to the age, size, and location of the supermarkets (figures in blankets are percentages).

Table 4.8: Distribution of commodities according to different

categories of supermarket categories (% in brackets)

Item	Categorization Criteria					
	Size		Age		Location	
	large	small	large	small	large	small
	(n=6)	(n=16)	(n=10)	(n=12)	(n=12)	(n=10)
Kimbo	6(100)	13(81.3)	9(90)	10(83.3)	11(91.7)	8(80)
Kasuku	5(83.3)	12(75)	8(80)	9(75)	11(91.7)	6(60)
Pishori	4(66.7)	11(68.8)	7(70)	8(66.7)	7(58.3)	8(80)
Joma	6(100)	9(56.3)	7(70)	8(66.7)	6(50)	9(90)

As seen in the table, the items investigated were more common in the large supermarkets than in the small supermarkets, with an exception of Pishori rice which was more in the small than in the large supermarkets. Old supermarkets had a higher availability rate of the items than the young supermarkets, while Kimbo and Kasuku were found to be more common among the supermarkets in the city centre than supermarkets in Westlands and Hurlingham (Area 2). The reverse was true for Pishori rice and Joma.

In terms of price differentials, it was found that Kimbo had the highest price differential

(26.5%) between the highest and lowest observed price, followed by Pishori rice (25.7%), Kasuku (20.6%), while Joma was last (16.2%). This is shown in table 4.9.

Table 4.9 Price differentials

Item	Category of Supermarket	Highest Price(Sh)	Lowest Price(Sh)	Difference	% Dif.
Kimbo	Overall	230	169	61	26.5
	Old	195	169	26	13.3
	Young	230	170	60	26.0
	Large	185	169	16	8.6
	Small	230	170	60	26.0
	A1	185	169	16	8.6
	A2	230	179.5	50.5	21.9
Kasuku	Overall	189	150	39	20.6
	Old	189	150	39	20.6
	Young	188	155	33	17.5
	Large	169	150	19	11.2
	Small	185	155	34	18.0
	A1	185	150	35	18.9
	A2	189	160	29	15.3
Pishori Rice	Overall	175	130	45	25.7
	Old	165	130	35	21.2
	Young	175	139	36	20.6
	Large	140	130	10	7.1
	Small	175	139	36	20.6
	A1	160	130	30	18.7
	A2	175	139	36	20.6
Joma	Overall	178	149	29	16.2
	Old	178	149	29	16.2
	Young	175	149	26	14.8
	Large	165	149	16	9.7
	Small	178	149	29	16.2
	A1	169	149	20	11.8
	A2	178	155	23	12.9

Comparing the old and the young supermarkets, it is observed that the old supermarkets had a higher price differential for all items, except Kimbo. Large supermarkets showed the lowest gap between the highest and the lowest price in all items, implying that large supermarkets tend to charge more or less the same price for their items. Supermarkets in Area I (City centre) had a lower price differential than those of supermarkets in Area 2 (Westlands and Hurligham). As stated earlier, previous researches have established price differentials of upto 12%. For example, Preston (1963), found a maximum of 12% price differential for 11 supermarkets in California, while Holdren (1960) found a 10% price differential.

Each item was subjected to student-t test analysis to determine if the differences in prices were statistically different under each category of the supermarkets.

4.9.1 Student t-tests

This test was found appropriate because the sample size was small (less than 30) and the population variance unknown. It is a very useful parametric test for paired sample means . The sample in this study was categorised into paired sub-samples whose sample means were calculated, making it appropriate to use student t-test. In terms of size, the two hypotheses formed were:

H_o: Prices of both the large and small supermarkets are similar.

H_2: Prices of the large and small supermarkets are different.

In terms of age, the hypotheses were:

H_o: Prices of both the old and the young supermarkets are similar.

H_1: Prices of the old and young supermarkets are different.

and in terms of location, the hypotheses tested were

H_o: Prices of both area 1 (city centre) and area 2 (Westlands and Hurglingham) are similar.

H_1: Prices of both area 1 and area 2 are different.

Values of d(difference) in the respective categories were obtained by subtracting the mean prices of

i) the small from the large supermarkets

ii) the young from the old supermarkets

iii) area 2 from area 1.

Testing of these values were then done at the 99%, 95% and 90% level of confidence using a two tailed student t test. The results are shown in table 4.10

Table 4.10: Student t-test results

Category	Item	d	d^* $\alpha=0.01$ $\alpha/2=0.005$	$\alpha=0.05$ $\alpha/2=0.025$	$\alpha=0.10$ $\alpha/2=0.05$
Size	Kimbo(n=19)	-10.70	18.63	13.56	11.12
	Kasuku(n=17)	-11.90	18.97	13.72	11.28
	Pishori(n=15)	-14.00	16.28	11.67	9.57
	Joma (n=15)	-4.37	14.37	10.28	8.43
Age	Kimbo (n=19)	-5.78	18.25	13.29	10.96
	Kasuku (n=17)	-1.50	19.16	13.85	11.39
	Pishori(n=15)	-13.54	18.44	13.22	10.84
	Joma (n=15)	5.40	13.77	9.87	8.09
Location	Kimbo (n=19)	-16.39	15.40	11.20	9.23
	Kasuku (n=17)	-17.00	15.29	11.06	9.09
	Pishori(n=15)	-10.20	16.60	11.90	9.76
	Joma (n=15)	-5.95	13.92	9.98	8.18

As seen in the table, the values of d are negative except for Joma, and going by our calculation of d, this implies that,

i) Prices of small supermarkets are higher than prices of larger supermarkets.

ii) Prices of young supermarkets are higher than for old supermarkets.

iii) Prices of supermarkets in the city centre are lower than those in Westlands and Hurligham.

However, when the significance of these differences was tested, it was found that in terms of size, only the price of Pishori rice was significantly different at the 95% level of confidence, while Kasuku price was significantly different at the 90% level of confidence. None of the prices was significantly different at the 99% level of confidence.

The inference here is that only very few prices of the large supermarkets are statistically different from those of small supermarkets at the 95% level of confidence.

In terms of age, none of the prices was found to be significantly different even at the 90% level of confidence. We may therefore make the inference that prices of both the old and the young supermarkets are not significantly different. Age of the supermarket is therefore not a very important consideration in determining prices. Kendall test (below) shows a weak positive correlation between age and price of the product.

When tested in terms of location, it was found that the prices of Kimbo and Kasuku were significantly different even at 99% level of confidence, while we could not find sufficient evidence to reject the hypothesis on similar prices for Pishori rice and Joma even at 90% level of confidence. This may be related to the fact that the two items (Pishori rice and Joma) were not very abundant among the supermarkets in the city centre, implying that even in the city centre, the two items carried a high price comparable to those of supermarkets in Westlands and Hurligham.

4.9.2 Kendall tau analysis

A Kendall tau analysis was carried out to assess the correlation between age and size with price. In terms of age, the supermarkets were ranked in terms of increasing age from the youngest to the oldest, and the respective prices indicated for each. A similar approach was taken for size (see appendices 4(a) and 49b).

The value of S (difference) was calculated by taking the sum of I(number of times a price is followed by a small one) from T (number of times a price is followed by a bigger one), that is to say S = T - I. These values were tested at the 99% and 95% levels of confidence (two tailed) by testing the respective hypothesis for age and size that:

H_0 price and age are uncorrelated

H_1 Price and age are correlated, and

H_1 Price and size are uncorrelated

H_2 Price and size are correlated

The Kendall Correlation Coefficientvalue (r) for each item under the different test areas were calculated from the formula.

$$r = \frac{S}{\frac{n(n-1)}{2}}$$ where n is the number of observations

The results are shown in table 4.11

Table 4.11: Kendall tau results

Test area	Item	n	S	S* $\alpha=0.01$, $\alpha/2=0.05$	$\alpha=0.05$, $\alpha/2=0.025$	r
Age	Kimbo	19	23	75	57	0.13
	Kasuku	17	6	64	50	0.04
	Pishori	15	-1.0	53	41	-0.01
	Joma	15	48	53	41	0.46
Size	Kimbo	19	-47	75	57	-0.28
	Kasuku	17	-36	64	50	-0.26
	Pishori	15	-39	53	41	-0.36
	Joma	15	-5.0	53	41	-0.05

From the table, we would reject our null hypothesis for values of ISI $\geqslant S^*$. It was found that except for Joma at the 95% level of confidence (for age), we could not reject the hypothesis that both age and size are not strongly related to price. However, the values of the correlation coefficient shed more light on this, it was observed that the prices of Kimbo, Kasuku and Joma were weekly positively correlated with the age of the supermarket (older the supermarket, higher the price). This was more strongly the case for Joma. Pishori rice price was very weakly correlated with the age of the supermarket in the negative form (young supermarkets charge relatively higher, with respect to pishori rice). It was realised that size was also very weakly correlated with price for the four items analysed, and the correlation was negative (the larger the supermarket, the smaller the price).

From this analysis, therefore, we might conclude that though weakly correlated, prices of most commodities tend to increase with the age of the supermarket, and to decrease with increasing size of the supermarket.

CHAPTER V
SUMMARY AND CONCLUSIONS

5.1 General conclusions

In an economy characterised by many players in the market as is the case with liberalised economies, it becomes very important for markets at all levels to develop appropriate marketing strategies in order not only to survive, but to have a competitive edge over the other competitors or market players. Liberalization provides an even playing ground where all players in the market can prove their worth through strategic management.

This study was set to investigate the factors affecting pricing strategies of selected consumer goods in the retail market, with special reference to supermarkets in Kenya. The study was based on two key assumptions, namely:)

That all supermarkets get price guidelines from the manufacturers for the products under investigation, and

ii) That no relationship exists between the age and size of a supermarket.

The first assumption was satisfied as all the supermarkets studied admitted that they got recommended prices from the manufacturers. It was, however, established that this price guideline is rarely used as supermarkets just go ahead and set their own prices depending on the circumstances. The markup price, therefore is more of a function of the cost of the commodity than the recommended price.

The second assumption was also satisfied in that of the six largest supermarkets in

Nairobi only one of them appeared among the six oldest supermarkets in the city. This shows that the oldest supermarkets are not necessarily the largest.

Most of the analysis was based on comparisons between the different categories of supermarkets, which were categorised according to size, age, and location. It was established that the degree of application of the various pricing strategies varied according to the size, age and location of the supermarkets. Factors affecting the pricing strategies were also found to have different impacts depending on the age, size and location of the supermarket. The established that competition was the most important factor affecting pricing strategies, followed by handling and selling costs; demand considerations; and quantity discounts from suppliers, in that order. Price lining was the least important.

In this study, it has been established that although other supermarkets are the major threats in competition, other retail outlets in the same business are also considerably important. Hawkers are also emerging as competitors, particularly in their appeal to low income earners who may not want to go into a supermarket just to pick one item. Where supermarkets sell some items combined though multiple pricing strategy, hawkers are able to break these up into smaller units which many people can afford.

The research established that supermarkets apply most of the pricing strategies but at varying degrees. One price (fixed price) strategy tops the list among the most applied strategies followed by unit pricing, use of uniform price in all branches, and penetration pricing strategies in that order. Flexible price strategy is rarely used. Odd pricing, though a very effective strategy, is losing its application among many supermarkets because of the problem of shortages of currency in coins form. This strategy is still common among other retail outlets especially those dealing in clothing and shoes. This may be because these retails still largely use flexible prices, and use the odd pricing in displaying their merchandise for window shopping, but leave room for bargaining to sell at a convenient price. For example, it is common to get an item priced at Shs 599, and when a customer asks for a lower price, he is told to pay, say 595, 590, or such other convenient price that will rule out the problem of change.

Rather than just increase or reduce the price of a commodity in anticipation of increased demand, many supermarkets first try to satisfy the customer by ensuring that there is sufficient stock of the commodity in the supermarket. Many managers indicated that it was of paramount importance to satisfy the customers, and this, they said, can best be achieved foremost by ensuring that the customer gets what he wants, in the right quantity, at the right time, and at the right price. We cannot therefore argue that many supermarkets adjust their prices in response to perceived change in consumer buying behaviour. They instead try to regulate the supply to ensure that there are sufficient stocks during periods of high demand such as during Christmas. However, special offers are made on certain items during such seasons, but this does not amount to overall price reductions, although 50% of the supermarkets reported that they reduced prices of most items during such periods.

Prices of the consumer goods studied were found to vary according to the age, size and location of the supermarket, and in particular, the study established that

- Prices of small supermarkets tended to be slightly higher than those of large supermarkets.

- Prices of young supermarkets tended to be slightly lower than those of older supermarkets.
- Prices of supermarkets in the city centre were found to be significantly lower than those supermarkets in Westlands and Hurlingham.

Prices were thus found to be directly proportional to the age of the supermarket, and inversely proportional to the size of the supermarket.

5.2 The future of supermarkets in Kenya

Since the late 1970s and 1980s, many small supermarkets have sprung up in Kenya and are spreading to most towns. Convenient stores have been established in many places, such as in the petrol stations.

As we move towards the next century, many more supermarkets are likely to emerge both in Nairobi and other towns in Kenya. In Nairobi, the trend seems to be towards establishing supermarkets in the suburban areas such as Kawangware, Karen, Githurai, Buruburu, and so forth. These places are favoured because they provide ample parking space for shoppers, and the land rates are lower. The next century might also see the emergence of more high cost self service stores in shopping centres like Sarit Centre and Yaya Centre. A trend towards expanding the existing supermarkets into megastores (As is happening with Jack and Jill) seems to be emerging.

Increased competition among retailers will be inevitable, and supermarkets must start to prepare for this by developing appropriate marketing strategies, especially in their pricing, so as to develop a competitive edge above the competitors. Evans and Berman

(1987) observed that "Strategic marketing, market strategies, and market plans which help corporations hold or develop a competitive advantage have become paramount management challenges and major unresolved business issues". This statement is as correct today as it was ten years ago, and is bound to hold ground even into the next century.

As the market becomes more and more liberalised, we will expect an intense price war among the supermarkets, just as will be the case among all retails as well as manufacturers. Those supermarkets able to develop appropriate pricing strategies and blend them effectively with the other marketing mix variables are likely to survive while the rest might as well be forced out of the market.

Since supermarkets mainly use fixed prices, it becomes hard to apply the odd pricing strategy, and it is because of this that this latter strategy is losing ground among the supermarkets.

5.3 Comparison with other Researches

The findings in this study are consistent with researches done previously in a number of aspects. That prices are inversely proportional to the size of supermarket as established by Bob Holdren in 1960 has been found valid and to hold under the Kenyan situation, 37 years after Holdren did his studies in America.

The wheel of retailing theory argues that old supermarkets should charge higher prices than the young supermarkets. In this study, a positive correlation was found to exist between the age of a supermarket and the price for three of the four items investigated. Only one item showed a negligibly small negative correlation coefficient of 0.01. We may therefore argue in support of a directly proportional relationship between the age and price of the supermarket. This, however did not come out very clearly under the student t-test, in which the mean prices of young supermarkets seemed to be slightly higher than those of old supermarkets.

Price differentials between the highest and lowest prices for the items studied seems to indicate a higher range (over 15%) than the ranges found by Holdren (10%) and Preston (12%) in 1960 and 1963, respectively. Of the 28 price differentials calculated in this study as shown in table 4.9 only 8 (28.6%) lay within the range 7% to 15% price differential, while all the other differentials were greater than 15%. This tends to point to unstable price conditions in Kenya as compared to the American conditions. Though no previous comparative studies have been done in Kenya and which could be used to show the trend, we may predict that the price differentials will decrease with time. This prediction is based on the expectation that greater efficiency in production, distribution and selling of these commodities is likely in the future, thereby leading to a convergence of the prices, especially for a common category of supermarkets. This seems to be working among the large supermarkets, where the differential has been scaled down to just below 10%.

This study has also established that it is a common practice for supermarkets to price some items at lower prices especially when the items are slow moving or when the items are about to expire, which is consistent with what Holdren (1960) describes as 'Get rid of principle'. In his study, Holdren found that it was common for fast moving items to be priced even below cost. For example, he found that baby food, flour, sugar and coffee were all sold at a loss in one or more of the eight stores in his study. Although this general principle seem to apply in Kenya, Kenyan marketers tend to be very cautious and will rarely sell anything below cost, unless the item is just about to expire. In cases where a regularly priced item is to be sold below cost, it is often combined and sold with another item to ensure that the cost is covered. This is why it is common to find advertisements such as "buy two bags at Shs 1200 and get a free wallet!". The free wallet may not be free as its cost is often somehow covered in the Shs 1200.

5.4 Limitations

There were a number of limitations in this study.

First, it seems like many retailers in town are losing trust on researchers and are not ready to provide some information for fear that the information might "be used against them by the authorities". In this study, for example, it was not possible to get data on sales turnover even after explaining to the managers that this information was strictly for academic work in the university. The researcher was therefore forced to drop this as a criterion for determining size and use other criteria. This would have formed a very good criterion for determining size and making comparisons with the other criteria used. However, trading floor space which was used is equally good.

Secondly, this study covered just over 50% of the supermarkets in Nairobi, and analysed four consumer goods. The duration of the research period (two months) may not be sufficient to make adequate conclusions as to the price variations. This was due to time and budgetary constraints which could not allow for a broader study extending across towns and analyzing more consumer goods over a longer period of time.

Thirdly, currently, there is no clear distinction between a supermarket, departmental store, discount store or convenient store in Kenya, and as such studies like this one often incorporate aspects of all types of self service stores as many of these stores have combinations rather than fully differentiated types of self service stores. Even the Kenya Business Directory admits that a pure list of supermarkets is hard to prepare in Kenya, but that they look at all trading characteristics of an establishment and categorise it as a supermarket if most of its characteristics correspond to those of a supermarket than anything else. However, all the self service stores studied here qualify as supermarkets as per the definition adopted in chapter one, for purposes of this study.

5.5 Recommendations for further research

This study concentrated on the supermarkets, and as it came out of the study, other retail outlets dealing in similar merchandise but not operating as supermarkets are emerging as major competitors. A research to establish the application of pricing strategies among these retailers might give some insight into their strategic management practices, and how they compare with the supermarkets.

Supermarkets are emerging as very interesting retail area in Kenya, but unfortunately very little research has been done in this area. A broad based research to assess the growth trends of supermarkets in Kenya could shed more light on the factors influencing the growth, which so far indicates that over 70% of the supermarkets in Nairobi were formed in the 1980s and 1990s.

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APPENDIX 1

QUESTIONNAIRE

TO BE FILLED BY THE BRANCH MANAGER OR EQUIVALENT.

1. Name of Supermarket ______________________

2. Year of establishment ______________________

3. Size of the supermarket in terms of;

i. Number of branches (Nairobi only) ______________

ii. Number of Check outs(all branches) ______________

iii. Number of employees (all branches) ______________

iv. Total Trading floor space (in square feet) ______________

v. Sales recorded in 1995 __________ Ksh., and in 1996 __________ Ksh.

4. Do your suppliers deliver your orders or you arrange to collect them from the factory?

(a) All our suppliers deliver the orders to our stores at no cost.

(b) Some of our suppliers deliver the orders to our stores at no cost.

(c) All our suppliers deliver the orders to our stores at some cost.

(d) Some of our suppliers deliver the orders to our stores at some cost.

(e) We arrange to collect the orders ourselves.

5. How are your sales spread during the month? (Tick the statement(s) that apply)

(a) evenly spread out

(b) highest at the mid month

(c) highest during the first week of the month

(d) highest during the last week of the month

6. Which months do you normally record the highest sales in any given year? (Tick the statement that applies).

(a) during Christmas(Dec.)

(b) during Easter(March/April)

(c) when breaking ramadhan

(d) other non holiday seasons (Please specify ______

7. Who sets prices for the various products in this Supermarket? (Tick the statement(s) that apply).

(a) The Marketing Manager

(b) The Proprietor

(c) A committee of the top executives

(d) The respective branch managers

(e) Any other (Pls specify)____

8. How often do you use the following strategies in pricing?

Hardly ever Most frequently

	1	2	3	4	5
1 Give discount to customers	( )	( )	( )	( )	( )
2 Use uniform price in all branches	( )	( )	( )	( )	( )
3 Use different prices in each location	( )	( )	( )	( )	( )
4 Skim-the-cream	( )	( )	( )	( )	( )
5 Penetration	( )	( )	( )	( )	( )
6 One Price	( )	( )	( )	( )	( )
7 Flexible Price	( )	( )	( )	( )	( )

8 Unit Pricing ( ) ( ) ( ) ( ) ( )

9 Price lining ( ) ( ) ( ) ( ) ( )

10 Leader Pricing ( ) ( ) ( ) ( ) ( )

11 odd pricing ( ) ( ) ( ) ( ) ( )

9. Please list any other pricing strategies you might have

i ______________________________

ii ______________________________

iii ______________________________

iv ______________________________

10. What pricing strategy does your Supermarket adopt when expecting more customers to turn up for shopping, as during special occasions? (Tick the statement(s) that apply)

(a) Price reduction of all major items

(b) Price increases of all the major items

(c) Price reduction of some products, and increases in others

(d) we are not sensitive to these expectations, and therefore we do not adjust prices.

(e) any other (Please specify)

____

11. What pricing strategy do you usually adopt when introducing a new product? (Tick the statement(s) that apply)

(a) Start with a low price and gradually raise it

(b) Start with a high price and gradually lower it

(c) just set a reasonable price that will give some profit

(d) any other (Pls. specify)____________________________

12. Are the prices for all the items similar in all your Supermarket branches within Nairobi?

(a) All prices are the same in all our City Branches

(b) Most prices are the same in all our City Branches

(c) Some of our prices are the same in all our City Branches

(d) Our prices vary from branch to branch.

13. Please indicate the importance of the following factors in as far as they affect your pricing strategies.

	Totally unimportant		very important		
	1	2	3	4	5
1 Demand considerations	( )	( )	( )	( )	( )
2 Competition	( )	( )	( )	( )	( )
3 Resale price maintenance	( )	( )	( )	( )	( )
4 Leader pricing	( )	( )	( )	( )	( )
5 Price lining	( )	( )	( )	( )	( )
6 odd pricing	( )	( )	( )	( )	( )
7 Multiple unit pricing	( )	( )	( )	( )	( )
8 Handling and selling costs	( )	( )	( )	( )	( )
9 Quantity discounts from suppliers	( )	( )	( )	( )	( )

14. Please list any other factors which you think influence your pricing strategies

i____

ii____

iii____

iv____

15. Please list the main problems experienced by this supermarket in pricing.

i. ____

ii.____

iii.____

iv.____

____

16. Please indicate the level of importance your supermarket attaches to the following aspects/attributes of pricing:

	totally unimportant 1	2	3	4	Very important 5
i. The number of supermarkets that presently compete with you	( )	( )	( )	( )	( )
ii. Quality of the product	( )	( )	( )	( )	( )
iii. The profit margin	( )	( )	( )	( )	( )
iv. Customer satisfaction	( )	( )	( )	( )	( )
v. Volume of sales	( )	( )	( )	( )	( )
vi. The expectation that more customers will do their shopping	( )	( )	( )	( )	( )

vii. location of the supermarket ( ) ( ) ( ) ( ) ( )

viii.reliability of suppliers ( ) ( ) ( ) ( ) ( )

ix.Price guidelines from suppliers ( ) ( ) ( ) ( ) ( )

17. Please indicate the extent to which the following are a threat to you as competitors

	totally unimportant			very important	
	1	2	3	4	5
i. Other supermarkets	( )	( )	( )	( )	( )
ii. Other retail shops	( )	( )	( )	( )	( )
iii. Hawkers	( )	( )	( )	( )	( )

APPENDIX 2a

List of Supermarkets in Nairobi.

1	African Grocers*	36	Ladywood Farm Store*
2	Aladin Largi & Co.	37	Makro Supermarket*
3	Alpha Woollens	38	Muthaiga Mini Market
4	Ashunt Engineers*	39	Nemchand Narshi & Co.
5	Barns Supermarket	40	Parklands price Rite
6	Bashir Provision Store	41	Peponi grocers
7	Broadway Stores	42	Pop-In (A) Ltd.
8	Budget Supermarket	43	Safeway
9	Buruburu Supermarket	44	Sai general store
10	Caledonian Supermarket	45	Select n' pay
11	Camesh	46	Schilada Supermarket
12	Chandarana*	47	Shabana*
13	Cleanway	48	Sippy's Ltd.*
14	Continental*	49	Shopper's paradise
15	Country*	50	Sondu enterprices
16	Ebrahim's*	51	Sonvirco Ltd.*
17	Esso*	52	South C Supermaket
18	Faire Faire Ltd.*	53	Spicy Spices*
19	General Foods*	54	Spring Valley Spkt.
20	Gigiri	55	Star Shop*
21	Goodfare Stores*	56	Starehe*
22	Hamza	57	Sterlin*
23	Harry's*	58	Supervalue Spkt.*
24	Hot & Spicy*	59	Tesco Self Service
25	Hurlingham grocers*	60	Tricor Enterprices
26	Jamia*	61	Tristar*
27	Jack & Jill *	62	Tusker*
28	Juja Rd. Fancy store	63	Uchumi*
29	K & A Self Selection*	64	Ukwala*
30	Karen Provision Store	65	Vijiko*
31	Karen Super grocers	66	Vishal*
32	Karen Supermarket	67	Westlands Gen. Store*
33	Kilimani green grocers	68	Westlands Supermarket*
34	La Baguette*	69	Woodley Grocers
35	Lady Farm shop	70	Woolworths
		71	Nakumatt*

* Supermarkets visited

Source: Kenya Business Directory

Appendix 2b

Summary of Supermarkets Visited

S/ No.	Supermarket	Area sq.ft	No. of Employees	No. of checkouts	No. of branches	Age* (years)
1	Vijiko	1000	8	2	1	24
2	Tusker	13000	75	16	2	7.0
3	Vishal	6000	40	4	1	1.0
4	Jack & Jill	30000	250	18	2	14
5	Country	3000	20	2	2	8.0
6	Jamia	11000	15	2	1	5.0
7	Tristar	5000	10	2	1	4.0
8	Ebrahim's	23000	100	8	1	27
9	Westlands	9000	80	10	4	15
10	Ladywood	1100	7	1	1	7.0
11	Continental	5500	20	3	1	12
12	Shabana	4000	20	2	1	0.5
13	Esso	4900	60	11	11	5.0
14	Nakumatt	70000	800	45	5	16
15	Westlands Gen.	6000	19	3	1	37
16	La Baguette	2400	25	1	1	0.5
17	Hot & Spicy	1300	8	1	1	8.0
18	Uchumi	110000	1000	120	12	22
19	Chandarana	10000	50	5	2	7.0
20	African grocers	2000	7	3	1	35
21	General Foods	7500	30	2	1	34
22	Makro	7500	20	4	1	14
Total (n = 22)		297,500	2664	259	54	303
Total (n = 21)**		202,500	1664	149	42	-
Average(n=21)**		9,643	79	6.9	2	13.7

* age as at May 1997

** excluding Uchumi

Appendix 3a General Findings

Area		Overall (n = 22) No.	%
1.	**Supplies Conditions**		
	i. Supplies at no extra cost	18	81.8
	ii. Some supplies at no cost	1	4.5
	iii. Some supplies at some cost	3	13.6
2.	**Monthly Sales Distribution**		
	i. Sales evenly spread	5	22.7
	ii. Sales highest at first and last week of the month	17	77.3
3.	**Annual Sales Distribution (n = 21)**		
	i. Sales highest at Christmas	20	95
	ii. Sales highest during other non holiday seasons.	1	4.8
4.	**Responsibility of Price Setting**		
	i. The Marketing Manager	7	31.8
	ii. Proprietor	3	13.6
	iii. Committee of top executives	5	22.7
	iv. Respective branch managers	3	13.6
	v. Any other	4	18.2
5.	**Strategy in preparation for special occasions**		
	i. Price reduction of major items	11	50
	ii. Price increase and decrease	4	18.2
	iii. Not sensitive	4	18.2
	iv. Depends on season	3	13.6
6.	**Stratey in introducing new product**		
	i. Low price, then increase	2	9.1
	ii. High price, then decrease	1	4.5
	iii. Reasonable price	18	81.8
	iv. Depends	1	4.5

7. Similarity of Prices (n=8)		
i. Same in all branches	6	75
ii. Vary from branch to branch	2	25

Appendix 3b **General Findings by age.**

Area	age			
	G1 (n=10)		G2 (n=12)	
	No.	%	No.	%
1. Supplies Conditions				
i. Supplies at no extra cost	8	80	10	83.3
ii. Some supplies at no cost	-	-	1	8.3
iii. Some supplies at some cost	2	20	1	8.3
2. Monthly Sales Distribution				
i. Sales evenly spread	3	30	2	16.7
ii. Sales highest at first and last week of the month	7	70	10	83.3
3. Annual Sales Distribution (n=21)				
i. Sales highest at Christmas	9	90	11	91.7
ii. Sales highest during other non holiday seasons.	1	10	-	-
4. Responsibility of Price Setting				
i. The Marketing Manager	3	30	4	43.3
ii. Proprietor	2	20	1	8.3
iii. Committee of top executives	1	10	4	33.3
iv. Respective branch managers	1	10	2	16.7
v. Any other	3	30	1	8.3
5. Strategy in preparation for special occasions				
i. Price reduction of major items	5	50	6	50
ii. Price increase and decrease	2	20	2	16.7

iii. Not sensitive	2	20	2	16.7
iv. Depends on season	1	10	2	16.7
6. Stratey in introducing new product				
i. Low price, then increase	1	10	1	8.3
ii. High price, then decrease	1	10	-	-
iii. Reasonable price	7	70	11	91.7
iv. Depends	1	10	-	-
7. Similarity of Prices (n=8)				
i. Same in all branches	3	75	3	75
ii. Vary from branch to branch	1	25	1	25

<u>Appendix 3c</u> General Findings by size

Area	Size			
	G1 (n=6)		**G2 (n=16)**	
	No.	**%**	**No.**	**%**
1. Supplies Conditions				
i. Supplies at no extra cost	4	66.7	14	87.5
ii. Some supplies at no cost	1	16.7	-	-
iii. Some supplies at some cost	1	16.7	2	2.5
2. Monthly Sales Distribution				
i. Sales evenly spread	1	16.7	4	25
ii. Sales highest at first and last week of the month	5	83.3	12	75
3. Annual Sales Distribution (n=21)				
i. Sales highest at Christmas	6	100	14	93.3
ii. Sales highest during other non holiday seasons.	-	-	1	6.7
4. Responsibility of Price Setting				
i. The Marketing Manager	-	-	7	43.8
ii. Proprietor	1	16.7	2	12.5
iii. Committee of top executives	3	50	2	12.5

iv. Respective branch managers	1	10	2	16.7
v. Any other	3	30	1	8.3
5. Strategy in preparation for special occasions				
i. Price reduction of major items	5	50	6	50
ii. Price increase and decrease	2	20	2	16.7
iii. Not sensitive	2	20	2	16.7
iv. Depends on season	1	10	2	16.7
6. Stratey in introducing new product				
i. Low price, then increase	1	10	1	8.3
ii. High price, then decrease	1	10	-	-
iii. Reasonable price	7	70	11	91.7
iv. Depends	1	10	-	-
7. Similarity of Prices (n=8)				
i. Same in all branches	3	75	3	75
ii. Vary from branch to branch	1	25	1	25

<u>Appendix 3c</u> General Findings by size

Area	**Size**			
	G1 (n=6)		**G2 (n=16)**	
	No.	**%**	**No.**	**%**
1. Supplies Conditions				
i. Supplies at no extra cost	4	66.7	14	87.5
ii. Some supplies at no cost	1	16.7	-	-
iii. Some supplies at some cost	1	16.7	2	2.5
2. Monthly Sales Distribution				
i. Sales evenly spread	1	16.7	4	25
ii. Sales highest at first and last week of the month	5	83.3	12	75

3. Annual Sales Distribution (n=21)

i. Sales highest at Christmas	11	91.6	9	90
ii. Sales highest during other non holiday seasons.	1	8.3	-	-

4. Responsibility of Price Setting

i. The Marketing Manager	4	33.3	3	30
ii. Proprietor	1	8.3	2	20
iii. Committee of top executives	2	16.7	3	30
iv. Respective branch managers	1	8.3	2	20
v. Any other	4	33.3	-	-

5. Strategy in preparation for special occasions

i. Price reduction of major items	5	41.7	6	60
ii. Price increase and decrease	2	16.7	2	20
iii. Not sensitive	2	16.7	2	20
iv. Depends on season	3	25	-	-

6. Stratey in introducing new product

i. Low price, then increase	-	-	2	20
ii. High price, then decrease	1	8.3	-	-
iii. Reasonable price	10	83.3	8	80
iv. Depends	1	8.3	-	-

7. Similarity of Prices (n=8)

i. Same in all branches	5	100	1	33.3
ii. Vary from branch to branch	-	-	2	66.7

Appendix 4a: Price in relation to age of the supermarket

	Age (yrs)	Kimbo	Kasuku	Pishori	Joma
1.	0.5				
2.	0.5	186	160	150	155
3.	1.0	170	155	145	150
4.	4.0	179	158		
5.	5.0	185	169		159
6.	5.0			175	
7.	7.0	175	155	140	165
8.	7.0	230	188	155	155
9.	7.0	179.5	175	139	159
10.	8.0	175	159	150	149
11.	8.0	200			
12.	12.0	185	185	149	175
13.	14.0	175	159		159
14.	14.0	179	155		168
15.	15.0	195		150	
16.	16.0	169	154	130	149
17.	22.0	175	150	139	159
18.	24.0	179	165	139	169
19.	27.0				
20.	34.0	185	185	160	
21.	35.0	185	170	165	165
22.	37.0	185	189	145	178
n = 22		19	17	15	15

Appendix 4b: Price in Relation to Size of the Supermarket

Size (sq ft)	Kimbo	Kasuku	Pishori	Joma
	Prices			
1,000	179	165	139	169
1,100	230	188	155	155
1,300	200			
2,000	185	170	165	165
2,300				
2,400				
3,000	175	159	150	149
4,000	186	160	150	155
4,900				
5,000	179	158		
5,500	185	185	149	175
6,000	185	189	145	178
6,000	170	155	145	150
7,500	178	155		168
7,500	185	185	160	
9,000	195		150	
10,000	179.5	175	139	159
11,000	185	169		159
13,000	175	155	140	165
30,000	175	159		159
70,000	169	159	130	149
110,000	175	150	139	159
n = 22	19	17	15	15