FACTORS INFLUENCING PRICING STRATEGIES ADOPTED BY LARGE ALCOHOL MANUFACTURERS IN KENYA

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DECLARATION

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

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

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DEDICATION

This Project is dedicated to my late parents Jackson W. Oguya and Rebecca Ajumbo, my dear wife Edna and Children Susan, Elsa, Jane and James for their encouragement and support during the time of my studies.

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LIST OF ABBREVIATIONS AND ACRONYMS

BEP:	Break Even Pricing
BK:	Buyers Knowledge
CPP:	Cost plus pricing
CVP:	Customer Value Pricing
ECP:	Experience Curve Pricing
FC:	Firm Cost Structure
FP:	Flexible pricing
IC:	Industry Competition
LLP:	Loss Leader Pricing
LPS:	Low Priced Supplier
OFP:	Optional Feature Pricing
PB:	Price Bundling
PLP:	Product Line Pricing
PO:	Price objectives
PP:	Penetration Pricing
PPAIRITY:	Parity price
PREPRICI:	Premium pricing
PROPRICI:	Promotion pricing
PS:	Price Skimming
PSIGNALI:	Price Signaling
PSYCHP:	Psychological Pricing
PVP:	Perceived Value Pricing
SD:	Supply and Demand
SK:	Sellers Knowledge

ABSTRACT

This study is on factors influencing pricing strategies adopted by Large Alcohol Manufacturers in Kenya. The study seeks to establish the challenges faced by managers in these companies while formulating and implementing pricing strategies, factors influencing pricing strategies adopted, and to what extent pricing strategies are employed in these firms.

Pricing decisions have a direct effect on a firm’s performance in the marketplace and indeed its survival, and have always occupied a crucial place in strategic planning. Regardless of product or industry, a well-established price enables the firm to best capture the value embodied in a product and thereby establish a competitively advantageous position in the market. Pricing decisions, however, can be difficult, and often speculative, due to the uncertainties associated with today’s dynamic environments. Rapid changes in information systems, proliferation of product lines, and advances in technology are but a few of the elements marketers are confronted with in developing pricing strategies. This level of difficulty is compounded further when managers attempt to develop pricing strategies in the international arena. By attempting to operate in multiple markets, the Kenyan alcohol manufacturing firms are confronted with an even more complex and dynamic set of environmental contingencies all of which serve to magnify the problem of decision uncertainty for managers.

The findings of this particular study intended to shed more light into the factors influencing pricing strategies adopted by large alcohol manufacturers in Kenya. The study modeled factors influencing pricing strategy choices such as pricing objectives ; product demand; firm cost structure; industry competition; buyers’ knowledge and sellers’ knowledge together with the major pricing strategies adopted by firms with a view of establishing any relationship between these factors and pricing strategies adopted by large alcohol manufacturing industry in Kenya.

A census survey was carried out on the large alcohol manufacturers using a questionnaire to collect data from managers and executives who are involved in pricing activities from

Mumias Sugar Company’s alcohol plant; Spectre International in Kisumu and Agro-chemical and Food Company based in Muhoroni Kenya.

A multivariate analysis of variance (MANOVA) was carried out to analyze the relationship between the dependent variables (pricing strategies) and the independent variables (factors influencing these strategies) on SPSS for windows. From the SPSS findings and analysis, firm cost structure (p value = 0.002) is the only significant factor determining the pricing strategy in alcohol producing firms. Another close player in pricing strategy formulation is the pricing objectives (p value=0.117) although not a significant contributor at 0.005 level of significance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

This is a research study on factors influencing pricing strategies adopted by Large Alcohol Manufacturers in Kenya. The study seeks to establish the challenges faced by managers in these companies while formulating and implementing pricing strategies, factors influencing pricing strategies adopted, and to what extent pricing strategies are employed in these firms.

Alcohol manufacturing is part of the beverage subsector and is a critical sub-sector of Kenya's economy and accounts for 3.7% GDP compared to the entire manufacturing sector's 10%, it rakes in substantial annual tax revenue to the exchequer (Government of Kenya (GoK) 2011, *Economic Survey 2011*, Nairobi, Government Printer, p. 22). Other than beverage use, alcohol is used chiefly as a solvent in the extraction of specific substances, medicines, organic synthesis, lotions, tonics, colognes, rubbing compounds, as an automobile radiator antifreeze, and as a rocket fuel (http://dictionary.reference.com/browse/alcohol). Alcohol thus plays a key role in the industrial development of a country as any other primary input.

Global business environment has been changing very fast with regard to marketing strategies and the context in which marketing decisions are planned and executed. World economies are very unstable, growth erratic, high rate of inflation, fluctuating exchange rate, globalization of markets and enhanced competition making it very difficult for marketing managers to predict with certainty anticipated growth in their markets. Managers will require rolling out value based marketing programs that emphasize on customer relationship to improve coordination and customer satisfaction (Walker et al., 2006)

In the liberalized economy, pricing strategies play a critical role in the overall fabric of marketing programs of a firm. Porter (1980), states that strategy is a central vehicle for attaining competitive advantages. Businesses worldwide continue to undergo changes in both form and substance in response to fundamental changes occurring in the environment in which these businesses operate today (Higgins, 1989). The powerful forces of globalization have yielded significant effects on the levels of competition, efficiency and productivity of many companies worldwide (Maleche, 2004). Developments in technology, consumer awareness, and market dynamics have all contributed to the enhanced globalization, accelerating its effects in both pace and magnitude particularly towards the latter half of the 20^{th} Century (Ohmae, 2000).This condition has put pressure on firms to carefully study the needs of their customers, how they can link these needs to their offerings in order to become wants and hence drive demand, and the factors that lead to customer value, satisfaction, and loyalty. These factors would eventually influence price setting and hence pricing strategies deployed (Swaddling, D.C. & Miller, C., 2001)

1.1.1 Meaning and Importance of Pricing

Price is defined as the sum of all values such as money, time, energy, and psychic costs that buyers exchange for the benefits of having or using a good or service (Strauss et al. 2006). It's also defined as the value placed on a good or service by customers at some point in time (Kibera & Waruinge, 1988). According to Jain (2004), Pricing is the process of determining the price, that is, what a company will receive in exchange for its products. Pricing factors are manufacturing costs, market place, competition, market condition, and quality of product. Pricing is also a key variable in microeconomic price allocation theory. Pricing is a fundamental aspect of financial modeling and is one of the four P's of the marketing mix. The other three aspects are product, promotion, and place. Price is the only revenue generating element of the four P's, the rest being cost centers. Throughout history, prices were set by negotiation between buyers and sellers and the price for a commodity or service would be agreed upon between two parties. Fixed price policies, that is setting one price for all buyers is a relatively modern idea that arose with the development of large scale retailing at the end of nineteenth century (Kotler& Keller, 2006).

Price is seen by marketers to carry a psychological impact on consumers, hence can be used symbolically for differentiation. High prices can be used to emphasize quality of a product or service and increase the status associated with it, while lowering it will encourage the price sensitive customers to go for the product.

1.1.2 The Concept of Pricing Strategies.

Pricing Strategies are activities aimed at finding a product's Optimum price; typically including overall marketing, objectives, consumer demand, product attributes, competitors' pricing, and market and economic trends (http://www.businessdictionary.com/definition/pricing-strategy.html)
Pricing strategies are the means by which the firm's pricing objectives are to be achieved. To formulate them, a manager ought to be guided by the internal and external conditions faced by the firm in order to select the best choice of strategies. Cravens (1997) argues that when setting pricing strategies, a market oriented firm would be expected to factor all pricing elements into the decision making process and still deliver value to the customer. In the end, the price strategy must accomplish its objectives without negatively impacting customer expectation and perception. When managing the four core elements of the marketing mix, marketing managers often perceive pricing as the most difficult element to manage because the price a company charges for its products or services will have a major impact on the bottom line i.e. revenue and profits and hence the manager's key performance indicator (KPI).

Kotler (2006) and Hoffman et al. (2002) note that many companies do not handle pricing well when setting strategies. They simply determine their costs and take their industry's traditional margins. Other common mistakes are failure to revise price often enough to capitalize on market changes, setting price independently from the rest of the marketing mix rather than as an intrinsic element of market positioning strategy, and failure to vary price sufficiently for different product items, market segments, distribution channels, and purchase occasions. Firms offering undifferentiated products and services need to monitor competitors pricing strategies. When the firm's offerings are differentiated according to quality and costs, value pricing strategies should be employed where the pricing refers to the value perceived by the customers.

Pricing strategy has traditionally not been considered an important variable in marketing strategy until in the 1970's when conditions changed dramatically giving a new twist to the task of making prices (Jain, 2004). Jain (2004) notes the stable economic conditions that prevailed during the 1960's may be particularly responsible for the low status ascribed to the pricing variable. Strategically, the function of pricing has been to provide adequate return on investment. "Cost-Plus" method of pricing and "Return-on-Investment" pricing has historically been the basis of arriving at a price. In the 1970's, however, the environment changed along with the task of making pricing decisions. Double digit inflation, material shortages, the high cost of money, consumerisms, and post-price controls behavior, all made pricing important. Since then, pricing continues to play a key role in formulating marketing strategies.

Despite the importance attached to it, effective pricing is not an easy task even under the most favorable conditions. A large number of internal and external variables must be studied systematically before prices can be set. For example, the reactions of a competitor are an important consideration in developing pricing strategy. However, simply knowing that a competitor has a lower price is insufficient. A marketer must know how much flexibility a competitor has in further lowering price, meaning an adequate knowledge on the competitors' cost structure.

However, in the dynamics of today's environment where unexpected economic changes can render cost and revenue projections obsolete as soon as they are developed, pricing strategy is much more difficult to formulate. Michael Porter (1985-) noted that companies must not only be able to create high absolute value but also high value relative to competitors, resulting in competitive advantage. Sustainable pricing strategies are therefore based on sustainable competitive advantages.

Nagle and Holden (2002) present two basic premises of competitive considerations when setting prices where one is based on buyers view and the other on competitor's reaction. The first one suggests that the buyer's choice is affected by not only the company's offer, but also by the competitors' offers. The buyer chooses the one that he or she perceives is the best. The second premise is how competitors react to a company's set pricing strategy. In an earlier publication Nagle and Holden (1987) had noted that a pricing strategy set without considerations of competitors' reactions is one that can only be effective in the short run. Dolan and Simon (1996) introduce the price tier concept which suggests that many markets have a structure in which brands or products are aligned on a value map of perceived product value verses price. A market can have different numbers of price tiers, each implying different level of perceived quality and associated price. A good example is the different brands of alcoholic potable spirit brands. A particular manufacturer, or for that matter, a distiller can place its products and services in one or more price tiers depending on the perceived value of its products and services. The significance of this concept is that competition within a price tier is usually more intense than across the tiers and there is an asymmetry in competition across the tiers; i.e. price cuts by higher quality tiers are more powerful in pulling customers up from lower tiers, than lower tier price cuts would achieve in pulling customers down from the upper tiers preference (Dolan and Simon, 1996).

1.1.3 General Overview of the Alcohol Industry in Kenya

The alcohol industry comprise of four major classes according to the product classification. The broad classification divides this industry into Beer, Wine, portable blended spirits, and Industrial alcohol or spirits. Beers are brewed by brewers from cereals filtered and bottled for sale directly to the consumer. Similarly, Wines are fermented from fruit juices aged through maturing in wine casks and kept away from the sun and in temperate conditions to develop refined flavours. Spirits on the other hand are the strongest in alcohol content and are distilled from fermented broth of cereals, fruit or other sugar sources such as sugar cane or molasses. The resulting spirit has several applications among them preparations of potable spirit blends such as vodkas, gins, brandy and fortification of wines. In addition, the spirit can find use in several industrial applications and pharmaceutical preparations. The industry key differentiation in the spirit industry is quality of product. Extra Neutral Alcohol (ENA) is a quality spirit demanded by both potable spirit blenders and industrial users.

The three local producers of ENA are Agrochemical and Food Company limited, Spectre International Company limited based in Kisumu and London Distillers (K) Limited (LDK) based at Athi River in Nairobi. LDK also produce final bottled vodkas and brandy. Four other manufacturers in East Africa and COMESA region are Kilimanjaro Biochem Industry based in Moshi-Tanzania, Sugar Corporation of Uganda ltd (SCOUL) based in Lugazi-Uganda, Ethanol ltd, based in Dwangwa – Malawi and Royal Swazi Sugar Corporation based in Swaziland. Two new distilleries are set to commence production in year 2012, one of them, Mumias Sugar Company in Kenya and the other in Uganda. There are also several importers of similar products produced by these firms. All these firms produce ENA from Molasses, a byproduct from the sugar industry.

ENA produced by these firms is further processed into bottled alcoholic drinks by such firms like UDV (K) ltd., a subsidiary of East African Breweries Ltd; KWAL, Africa Spirits ltd (ASL); and Keroche Industries Ltd. Other firms within east Africa are Uganda Breweries Ltd, Parambot Breweries, Leading distiller's ltd, Blue Nile group and Tanzania Breweries ltd. The demand for ENA closely tails the demand for bottled spirit (Whisky and Brandy) by the final consumer. Alcoholic drinks in Kenya are strictly controlled or regulated and heavily taxed. The Alcoholic Drinks Control Act, 2010 was enacted in 2010 to control and regulate the production, marketing and consumption of Alcoholic beverages in Kenya, the law is regulated by the National Campaign against Alcohol and Drug Abuse (NACADA), a regulatory body in Kenya.

1.2 Statement of the Problem

Kenya's industrialization policy at independence was focused on import substitution and as a result the government established several parastatals or quasigovernment institutions in productive sectors of the economy to actualize this policy (Coughlin and Ikiara, 1988). Among these and particularly in the area of alcohol production were Kenya Breweries limited(KBL) now East Africa Breweries limited, Kenya wine Agency limited(KWAL), Agro-Chemical and food company limited(ACFC) and Kisumu Chemical and Food company limited (KCFC) now Spectre International limited. Most of these companies thrived in the period when their markets were protected by government policies. However this has now changed with the liberalization of the economy towards the end of the twentieth century. With liberalized markets and stiff competition has meant that these firms must look afresh at their marketing strategies and employ suitable pricing strategies to remain competitive. Appropriate pricing strategies can build customer appeal and loyalty, increase profits, guarantee survival and attract both local and international customers.

Several studies have been done on manufacturing firms in Kenya. Nzuki (2002) did a study on factors influencing lunation among medium and large manufacturing firms in Kenya. Chune (2003) investigated on changes in business environment in Kenya by studying the influence of food manufacturing firms in Kenya. Researchers have put little emphasis on manufacturing firms and pricing strategies in manufacturing firms. Munyoki, (2006) did an analysis on the factors affecting pricing strategies of consumer goods in the retail market by studying supermarkets in Nairobi, Kenya. I have not come across any study that has been done on challenges facing manufacturing firms in their pricing strategies or factors influencing pricing Strategies in the alcohol manufacturing industry , a knowledge gap, particularly on 'factors influencing pricing strategies adopted by large alcohol manufacturers in Kenya.' There is need to build on previous research and undertake a specific study like the one proposed since no research has been done to find out the extent of adoption of pricing strategies in large alcoholic manufacturers in Kenya, particularly with reference to the factors that influence decisions in adopting them.

It is not known however, whether the firms employ the generic pricing strategies reviewed here, neither is it known whether such factors as mentioned in the literature review here, are the only ones that influence the decisions and implementation of pricing strategies adopted in these firms. Given the role played by the regulatory framework and the growing market created by the EAC and COMESA these local firms may employ the knowledge gained from the study to gain competitiveness in both the local and regional markets. There is need for management in these firms to formulate more effective pricing strategies. If these firms would implement more appropriate pricing strategies, they would significantly overcome the challenges of fluctuating demand and stiff competition. The proposed study therefore seeks to fill the gap by providing answers for the following research question: To what extent does cost structure, product demand, pricing objectives of the firm, sellers and buyer's knowledge, and/or industry competition influence pricing strategies in Alcohol manufacturing firms in Kenya?

1.3 Objectives of the Study

i. To determine factors influencing pricing strategies adopted by the large alcohol manufacturers in Kenya.

ii. To establish the extent to which pricing strategies are employed by the large alcohol manufacturers in Kenya.

1.4 Value of the Study

The study aims to add knowledge to management and help develop appealing pricing strategies and sustain competitive advantage in a changing environment characterized by cutthroat competition. Government agencies and policy makers may use the results to formulate positive pricing policies based on a framework that is relevant and sensitive to the forces influencing the alcohol industry in Kenya. Marketing practitioners, the academicians, and researchers may use the study to enhance their understanding of pricing strategies in the alcohol industry and their operational challenges and will give researchers an insight on the areas of further research and studies

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses concepts, theories and practice in the field of pricing strategies, highlighting the economist and marketers viewpoints. The discussion then selects the various alternatives of pricing strategies available for marketers in the alcohol industry.

2.2 The concept of Price

There are two main different views on pricing in theory: economic view and marketing view. These two views are coined by neoclassical economic theorists and behavioral pricing research respectively (Moore, 1995; Estelami and Maxwell, 2003). The economic theory relates price to the supply and demand relationship while cost, competition, and the price elasticity are key factors in determination of price. In competitive markets, the combined forces of competition and the desire of the sellers to maximize profits will bring supply and demand to an equilibrium point where price, marginal cost and average cost are equal (McCain, 1981; Kibera & Waruinge, 1988; Moore, 2003).

The economic theory basically postulates and rests on the assumption that the main aim of the business is maximization of total profits, that it knows exactly the costs of each level of output, and how much will be sold at each possible price. This therefore implies that maximum profit will be realized when marginal revenue is equal to marginal cost. Practically this assumption is fraught with great challenges in reality. Although it's generally accepted that according to the theory of demand, a customer will buy more at a lower price than at a higher price, all assumptions holding right. Never the less, marketers are supposed to be aware of what effects a change in price would bring to the demand level of his or her product or service offered, i.e. the price elasticity of demand.

However, Modern theories on pricing recognize that businesses may not be interested in profit alone but also in other business performance indicators covering liquidity, activity (efficiency) and leverage ratios such as the extent of growth in sales, market share, inventory position, liquidity, prestige, labor relations, and other activity ratios and specific business factors critical to the long time survival of that particular business. These theories also recognize that the customer’s choice is influenced by a multiplicity of factors like his or her social standing, peer pressure, advertisement, product presentation, outlet displays and/ or distributor network.

It is argued that in command economies, central control leads to the use of cost based method of pricing (Glautier, 2001). In market economies however, price is a function of supply, demand, and competition. Estelami and Maxwell (2003) notes that there is an increase in acceptance of marketing view of pricing and managers of businesses are accepting that they have to move pricing away from cost based methods towards market driven pricing and factor in all the other elements. Among the 4 P’s in marketing strategies (Product, Price, Promotion and Place), I have observed through much of the literature while conducting secondary research that the one that is least researched is Price. Hence there is a need to carry out more research on marketing view and behavioral pricing research to provide more relevant solutions to industry’s pricing and marketing problems.

While pricing theories may be valuable in understanding fundamental economic relationships, marketers contest their use in providing solutions to practical pricing problems. Business authors agree on the critical aspects of pricing for a firms profitability and need for more research on the topic which will improve understanding of how pricing decisions are taken and particularly how they be based on a strategic orientation. Dolan (1995) identified essential steps of setting the right prices and then monitoring that decision so that the benefits are sustainable. Before putting a price on a product or service, a pricer must consider many issues around the product or service and ask several questions to clarify these issues. Such questions include; How much do customers value the products, services, or other intangibles in question? What are the pricing objectives? Do we use profit maximization pricing? Do we set the price against a cost-plus pricing, demand based or value based pricing, rate-of-return pricing, or competitor indexing?

Should we consider single pricing or multiple pricing for different consumers or different uses and according to their ability to pay? Should prices change in various geographical areas, referred to as zone pricing? Should there be quantity discounts? What prices are competitors charging? Should we use a price skimming strategy or penetration pricing strategy? What image do we want the price to convey? Do we use psychological pricing? How important are customer price sensitivity, for example will they stick with us or are they price elastic? Are there legal restrictions on retail price maintenance, price collusion, or price discrimination? Do price points already exist for product category? How flexible can we be in pricing? The more competitive the industry, the less flexibility we have. Such factors that determine the price floor, mainly determined by production factors like costs where only variable costs are considered, economies of scale, marginal cost, and degree of operating leverage, and price ceiling determined by demand factors like price elasticity and price points.

Nagle (1987) observed that "if effective product development, promotion, and distribution sow the seed of business success, effective pricing is the harvest. While effective pricing can never compensate for poor execution of the first three elements, ineffective pricing can surely prevent these efforts from resulting in financial success",

2.3 Pricing Strategies

Much of the literature reviewed, agree on the issue that price should be handled as a strategic effort, this is not only the view of scholars but also present day marketing practitioners alike. They emphasize the importance of aligning pricing strategy to the overall corporate strategy and marketing strategy (Nagle, 1987; and Myers, 2002). This implies that businesses will adopt diverse strategies given different working conditions.

Pricing strategies are business level strategies built to enable the organization to achieve its marketing goals and goals of the business. Goals indicate what a business unit wants to achieve; strategy on the other hand is a game plan for getting there (Kotler, 2006).

Pricing strategies can be grouped into different perspectives depending on the objectives a business seeks to achieve. A composite of pricing strategies as identified by Jain (2004) and Kotler (2006) and grouped into eight different perspectives: Pricing strategies for new products; Pricing strategies for established products; Price flexibility strategy; Product-line pricing strategy; Leasing pricing strategy; Bundling pricing strategy; Price leadership strategy; and Pricing strategy to build market share. Different pricing strategies are recommended to fit with changes in marketing programs , market conditions, and product life cycles, cost considerations are associated with strategies like cost plus pricing, break even pricing strategies (Kibera, 1988). Each of these strategies are set to address specific conditions prevailing in that particular market, the product life time, the consumer behavior and the sellers objectives. For example, for new products, pricing strategies will consider how innovative the product is and the response of early adopters willing and able to buy the product. Usually at this early stage of the product life cycle, the strategy may not be to recoup the entire cost but to build market share since new products will have high fixed costs incurred during the research and design stage which probably can be recouped later once the product is accepted in the market and the market share soars.

2.4 Factors Influencing Pricing Strategies

A review of the generic pricing strategies narrated above show that they are built to achieve the objective of the business and that they either focus on the market structure, the consumer behavior, and the prevailing state of the economy of that market. In some cases the strategies are directed towards exploiting existing demands, in other cases the pricing strategies are set to create those demands where there is a latent demand or potential consumer need that has not been converted to a want and hence demand.
Basically the four factors that influence the price and hence pricing strategy employed by a firm for its product and services are: The firm's pricing objectives, Costs, Competition, and Demand. (Lovelock, 2007)

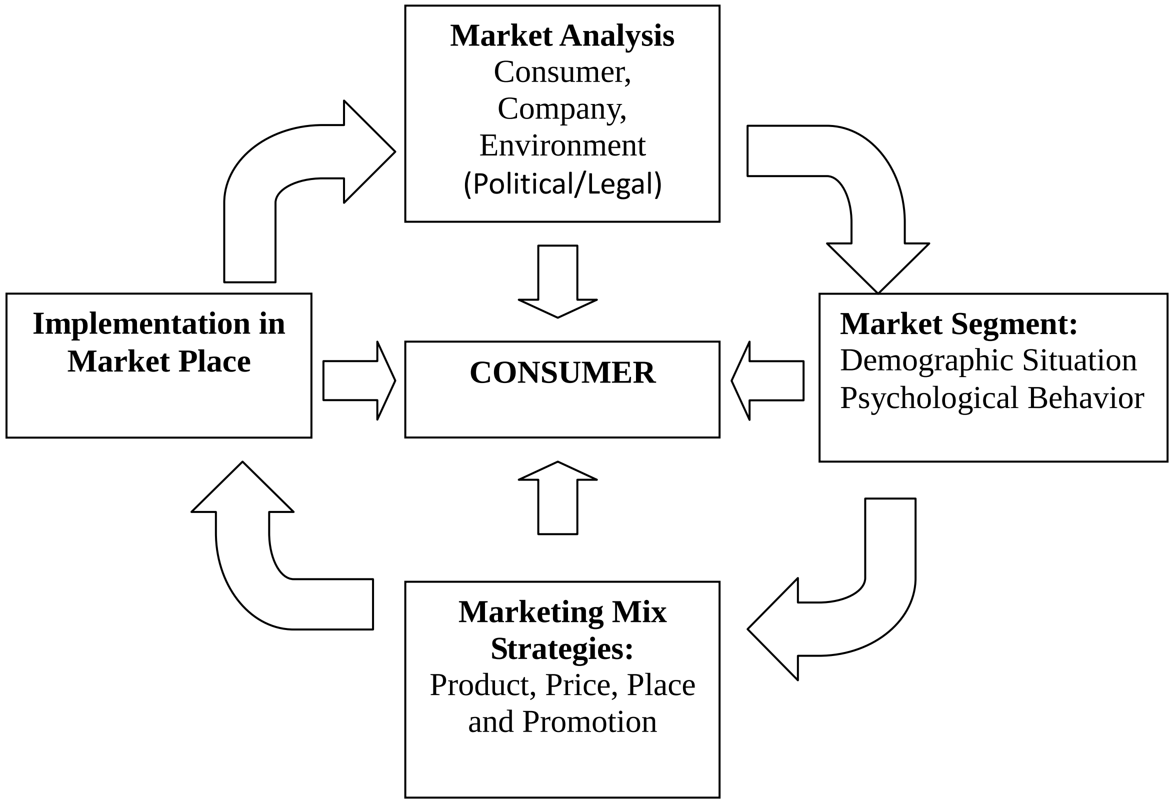
A firm has to consider many factors in setting up its pricing policy (Duta, et. al. 2003). In setting up a new price for any product or service, a pricer has to follow a six steps process: select pricing objective, determine demand, estimate costs, analyze competitors' costs, prices and offers, select a pricing method, and select the final price.

Traditionally, a pricer has often reviewed four factors to arrive at a price. These are pricing objectives, cost, and demand and industry competition. However, it has now been established that there are other variables under pinning these factors that determine a customer's willingness to accept a price and thereby influence the pricing strategies adopted by an organization by being customer centric.

The goal of customer centric organizations is to provide consumers with more value than the competitors. Value is the difference between what consumers give up (i.e. time, money or other resources) for a product and benefit they receive. In today's value conscious environment sellers must develop and communicate the overall value of their products (Grewal, et. al., 1998; Zeithaml, 1988). Quality often thought to be synonymous with value is not enough to sustain competitive advantage in today's environment, but the combination of other components of value such as brand, image, price and product features, does provide advantage (Woodruff, 1997).

Consumers choose products that provide the greatest value not necessarily in terms of cost saving but in terms of overall benefits, which might include the approval of peers.
Pricing strategies therefore will be influenced by the overall marketing strategy. That is the allocation of resources to develop and sell goods or services that consumers will perceive to provide more value than competitive goods or services. The entire process includes market analysis, strategy and implementation with a study of consumers at the core demonstrated in figure 1.0 below:

Figure 1: Customer-Centric Marketing Strategy



Source: Consumer Behavior, 10th Ed (Blackwell R.D., Miniard P.W. & Engel J.F.) p.36

Pricing decisions are among the most complex to be made in developing a marketing plan. Decisions regarding pricing require a tightly integrated balance among a number of important issues or factors. Many of these issues possess some degree of uncertainty regarding the reactions to pricing among customers, competitors, and supply chain partners. Some of these factors such as the firm's pricing objectives, supply and demand, and the firms cost structure, are critically important in establishing initial prices. Other factors become important after the initial price has been set, especially with respect to modifying the pricing strategy with time. Marketers and indeed managers involved with pricing decision processes of a firm's product must keep in mind that these issues are interrelated and must be considered in the context of a firm's entire marketing program. For example an increase in product quality or the addition of new product features often comes with an increase in price. This is particularly so when the product contains the latest technology such as witnessed when ACFC put up a new distillery to manufacture ENA, an improved quality from Neutral spirit. Pricing is also influenced by distribution, especially the image and reputation of the outlets where the goods or services are sold. Finally, companies use price as a tool of promotion, particularly to stimulate sales during low season or seasons of low demand.

2.4.1 Pricing Objectives

Setting specific pricing objectives that are realistic, measurable, and attainable is an important part of pricing strategy (Jain, 2004). Jain (2004) identified a number of objectives that firms may pursue; most of them reflect the reality of making profits by increasing volume, margin or some combination of the two.

2.4.2 Supply and Demand

The basic laws of supply and demand have an obvious influence on pricing strategies (Moore. 2003). That is as price go up demand falls, however there are exceptional cases brought about by customer expectations regarding pricing. In such case where customer expectations agree with the price increase then demand will not fall. Therefore under such cases customer expectations can be a driving force in pricing strategy.

2.4.3 Firm's Cost Structure

Demand sets the ceiling on the price the company can charge for a product or service, costs set the floor. The company wants here; include charging a price that will cover its cost of production, distribution, and sales of the product including a fair return for its effort and risk.

Fixed and variable costs are the major concern of a pricer. In addition the pricer may sometimes need to consider other types of costs, such as out-of-pocket costs, incremental costs, opportunity costs, controllable costs, and replacement costs. A firm must consider the impact of fixed costs to variable costs, the economies of scale that can be obtained, and its cost structure as compared to that of the competitor's to inform the decision making process to arrive at a suitable pricing strategy,

If the fixed costs of a company in comparison to its variable costs form a high proportion of its total cost, then it is advisable to select pricing strategy which will increase the market share or volume of sales, adding of sales volume will help to increase earnings. For example, in passenger airline firm whose fixed cost is as high as 60% - 70% of total cost, once fixed cost is recovered, any additional tickets sold add greatly to earnings. Such an industry is called volume sensitive. Conversely there are some industries, such as the consumer electronics industry, where variable costs constitute a higher proportion of total cost than fixed cost. Such industries are price sensitive because even a small increase in price add much to earnings

If the economies of scale obtainable from a company's operations are substantial, the company should plan to expand market share and with respect to long term prices, take expected decline in costs into account. Alternatively, if operations are expected to produce a decline in costs arising from a reduction in average costs, then prices may be lowered in the long-run to gain higher market share.

Depending on a firm's competitive advantage, it may choose a pricing strategy that calms the market or go for an all out war. For example if a manufacturer is a low cost producer relative to the competitors, it will earn additional profit by maintaining prices at competitive levels. The additional profits can be used to promote the product aggressively and increase the overall market share of the business. If, however, the costs of a manufacturer are high compared to those of its competitors, then the manufacturer is in no position to reduce prices because that tactic may lead to a price war that it would most likely lose.

Gessman (2003), a senior pricer at Strategic Pricing Group postulates that marketers must therefore evaluate such critical information as: 'Given our cost structure, what volume changes are necessary to make price changes profitable?' They must determine how many customers will ascribe how much value to the firms' offerings. The firm managers should know that market share is determined by value delivery at competitive advantage, and not just price cuts. Therefore the correct question is not "what levels of price will enable us achieve our sales and market share objective? But "what share of the market can we most profitably serve?"

Similarly, firm managers and marketers alike must ask "what prices can we convince customers are supported by the value of our products and services?" and "how can we better segment the market to reflect differences in value delivered to different types of customers?", create different levels of value and price options for different market segments and their respective value needs and design reduced price options that makes the demand for a price concession the customers problem for the customer must then choose which benefits to forgo.

2.4.4 Buyers' Price Knowledge

There has been considerable research investigating customer price knowledge. Monroe and Lee (1999) cite over sixteen previous studies, most of which focus on measuring customers' short-term price knowledge of consumer packaged goods. In one of the earliest studies, Gabor and Granger (1961) conducted in-home interviews with hundreds of housewives in Nottingham, England. They found that consumers were able to provide price estimates for eight-two percent of the products in their study. Thus, eighteen percent of customers were not able to recall the price of an item. In addition, only sixty five percent of customers were able to recall a price within five percent of the actual price. These findings have been replicated in later studies, which generally reveal that only half of the customers asked can accurately recall prices (Allen, Harrell and Hutt 1976, Conover 1986, Progressive Grocer 1964, 1975). In perhaps the most frequently-cited study, Dickson and Sawyer (1990) asked supermarket shoppers to recall the price of an item shortly after they placed it into their shopping cart. Surprisingly, fewer than 50% of consumers accurately recall the price. While price recall taps into consumers explicit memory recent research has suggested that consumers may encode and store price knowledge in implicit memory. Monroe and Lee (1999) argue that this implies a clear distinction between what consumers remember about prices versus what they know about prices. They remark that “the distinction between remembering and knowing contrasts the capacity for conscious recollection about the occurrence of facts and events versus the capacity for non-conscious retrieval of the past event, as in priming, skill learning, habit formation, and classical knowledge

2.4.5 Industry Competition Based Pricing

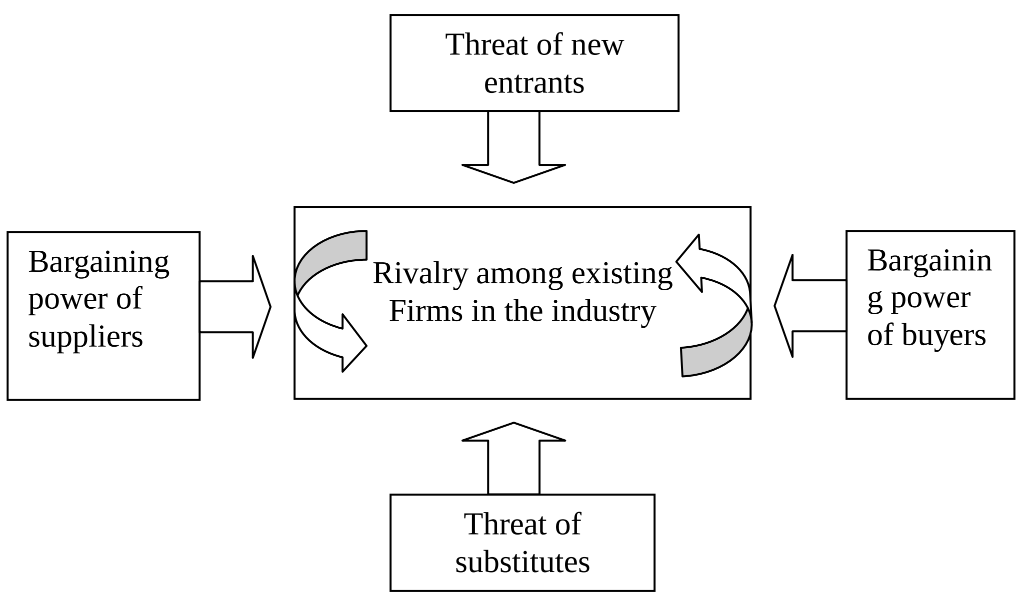
What strategy to pursue need to flow directly from solid analysis of a company’s external environment and internal situations. The two biggest considerations being industry and competitive conditions comprising its environment, and a company’s competitive capabilities, resources, internal strengths and weaknesses, and market position (Porter, 2004).

Porter (2004) postulates, industries differ widely in their economic characteristics, competitive situations, and future profit aspects. The economic and competitive traits of the fast-food business have little in common with those providing internet related products and services. The cable-TV business is shaped by industry and competitive conditions radically different from those of the soft drink or alcohol business. The economic character of industries varies according to a number of factors: the size and market growth rate, the pace of technological change, the geographical boundaries of the market (which can extend from local to global), the number and size of buyers and sellers, whether sellers products are virtually identical or highly differentiated, the extent to which costs are affected by economies of scale, and types of distribution channels used to access buyers. Competitive forces can be moderate in one industry and extremely fierce, even cutthroat in another. Moreover, industries differ widely in the degree of competitive emphasis put on price, product quality, performance features, service, advertising and promotion, and new product innovation. In some industries, price competition dominates the market place, while in others the competitive emphasis is centered on quality, product performance, customer service and brand image/reputation. In other industries, the challenge is for companies to work cooperatively with suppliers, customers, and may even select competitors to form strategic alliance in product innovation and development.

An industry's economic traits and competitive conditions, and how they are expected to change determine whether it's future profit prospects will be poor, or average, or excellent. Industry and competitive conditions differ so much that leading companies in unattractive industry can find it hard to earn respectable profits, while even weak companies in attractive industries can turn in good performances.

Michael Porter (1980) has demonstrated the state of competition in an industry as comprising of five competitive pressures on a market. Competition from rivalry within the industry players, competitive pressure from suppliers ability to exercise bargaining power and leverage, Competitive pressure from buyers ability to exercise bargaining power and leverage, threat of new entrants, and threat from substitute products. Porter (1980) suggested that these five main forces shape competition at the level of strategic business units and that a systematic analysis of each in turn can help managers identify the keys to competitiveness in their particular industry. The five forces are shown in figure 2 bellow.

Figure 2: Porter's Five Forces Driving Competition



Source: Marketing strategy and competitive positioning, 4th Ed (2008) p 74, Prentice Hall, Pearson Education by G.J. Hooley, N.F. Piercy and B. Nicoulaud.

A prime source of competition in any industry is among the existing incumbents. This rivalry is likely to be most intense where a number of conditions prevail. For example, where the competitors are roughly evenly balanced in size and/or market share, competition between such firms for an extra percentage point of the market is intense, leading to high levels of advertising spend, strong price competition, and continuous launch of new products (Hooley *et al*, 2008). Hooley (2008) further states that during periods of low market growth especially during the mature and decline stages of product life cycle, under such condition individual company growth is achieved only at the expense of competitors and hence rivalry intensifies. This situation is witnessed by the mobile telephone market in Kenya as a case in point.

Where exit barriers are high**,** firms find it difficult to exit a market once they have entered; they are more likely to compete hard for success. Such factors as high initial investment or high cost of redundancy may deter exit. Similarly, Hooley (2008) continues, where product differentiation is low particularly in markets where customers see little variation across products and where intrinsic quality and external value are perceived to be similar, competition for sales tends to be more intense. Prime reason being customer switching costs are low. Where fixed costs are relatively high as compared to variable cost, such situations require greater sales volume to cover them. Until that volume is achieved rivalry can be intense.

Other forces in Porter model are the threat of market entry, the threat of substitutes, the bargaining power of suppliers and the bargaining power of buyers. Taken together, these five forces offer a useful framework for assessing the factors likely to drive competition. They also suggest ways in which players in the industry, that is current incumbents, suppliers and buyers, might seek to alter the balance of power and improve their own competitive position.

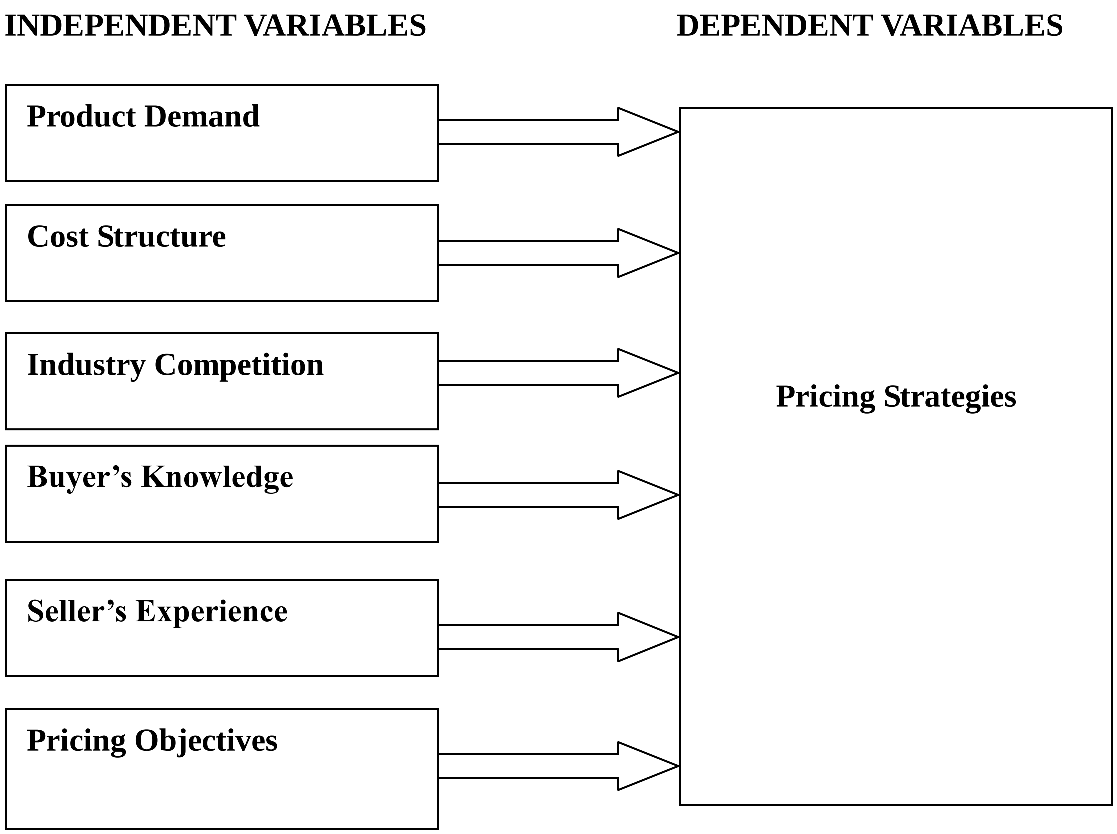
A competitive strategy based on pricing is a strategy whereby prices are set based on what a firm's competitors are charging or on a firms competitive advantage, something unique or special that a firm does or possesses that provides an advantage over its competitors. This strategy considers competitor's prices primarily, especially with products that are homogeneous or commodity in nature. A firm can choose to be below, at or above competitor's prices. In the alcohol manufacturing industry there are different companies manufacturing similar products and at various stages of finishes. For example in the alcoholic spirits industry, Distilleries will produce raw spirit, Extra Neutral Alcohol (ENA), a raw material used in the final production of bottled wines and spirits such as vodkas, whiskies and brandy. The three local producers of ENA are Agrochemical and Food Company limited, Spectre International based in Kisumu and London Distillers (K) Limited (LDK). LDK also produce final bottled vodkas and brandy. Four other manufacturers in East Africa and COMESA region are Kilimanjaro Biochem Industry based in Moshi-Tanzania, Sugar Corporation of Uganda ltd (SCOUL) based in Lugazi-Uganda, Ethanol ltd, based in Dwangwa – Malawi and Royal Swazi Sugar Corporation based in Swaziland. Two new distilleries are set to commence production in year 2012, one of them, Mumias Sugar Company in Kenya and the other in Uganda. There are also several importers of similar products produced by these firms. All these firms produce ENA from Molasses, a byproduct from the sugar industry.

ENA produced by these firms is further processed into bottled alcoholic drinks by such firms like UDV (K) ltd., a subsidiary of East African Breweries Ltd; KWAL, Africa Spirits ltd; and Keroche Industries Ltd. Other firms within east Africa are Uganda Breweries Ltd, Parambot Breweries, Leading distiller's ltd, Blue Nile group and Tanzania Breweries ltd. The demand for ENA closely tails the demand for bottled spirit (Whisky and Brandy) by the final consumer. Alcoholic drinks in Kenya are strictly controlled or regulated and heavily taxed. The Alcoholic Drinks Control Act, 2010 was enacted in 2010 to control and regulate the production, marketing and consumption of Alcoholic beverages in Kenya, the law is regulated by the National Campaign against Alcohol and Drug Abuse (NACADA), a regulatory body.

2.5 Conceptual framework

Stated herewith is the summary of the conceptual framework the factors influencing pricing strategies adopted by large alcohol manufacturers in Kenya. For this research the independent variable is the pricing strategy and the dependant variables are the factors such as pricing objectives, Demand, Cost, Competition, Buyers Knowledge, and Sellers experience. The conceptual map is as illustrated on the figure below.

Figure 3 Conceptual Diagram



Source: Researcher (2012)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This is a research study on factors influencing pricing strategies adopted by Large Alcohol Manufacturers in Kenya. The study was carried out in three firms involved in the manufacture of Extra Neutral Alcohol, a basic raw material for the blending of potable spirit drinks such as Vodkas, Whiskies and brandies. The questionnaire was administered to 20 managers from each these firms; Agro Chemical & Food Company based in Muhoroni, Spectre International Company Limited based in Kisumu, and Mumias Sugar Company's alcohol plant.

3.2 Research Design

This study was a census survey. The study was based on three companies which comprise the large Alcohol manufacturers for Extra Neutral Alcohol for potable spirit blenders in Kenya. A census approach is the most appropriate when the population is small (Nachmias C. & Nachmias D. 2005). Hence a questionnaire was designed to capture the opinion of respondents drawn from sample population from the three companies.

3.3 Population of the Study

The population consisted of all the sixty employees in the selected departments either directly or indirectly involved with the pricing activities in the three firms. The departments were administration, marketing, finance, production and quality control.

3.4 Data Collection

The study used primary data. Questionnaire consisting of open and closed ended questions was used. Pertinent data was collected from the top and middle level management staff from five large alcoholic spirit manufacturing companies in Kisumu, Muhoroni, and Nairobi. The interviews involved the chief executive officers, marketing managers, operation managers, finance managers and senior administrators who were found to be relevant to the study. The questionnaire was self-administered by the researcher and his research assistant.

The open ended questions enabled the respondents to give as much information as possible without any form of limitation. The primary data was supplemented by secondary data from existing record of the manufacturers, the Kenya Bureau of Standards (KEBS), National Agency for Campaign against Alcohol and Drugs Abuse (NACADA), and the Alcoholic Drinks Control Act among others.

3.5 Data Analysis

The research used quantitative methods to analyze the data. Multivariate regression analysis of variance (MANOVA) was used to analyze the data applying the canonical techniques in SPSS software for windows. A “multivariate” analysis has many dependent variables (again, with any number of Independent Variables). The goal of the analysis was to look for an effect of one or more Independent Variables (factors influencing strategies) on Dependent Variables (pricing strategies) at the same time. Factor analysis will be used to reduce the vast number of variables to a meaningful, interpretable, and manageable set of factors (Sekaram 2006). Descriptive statistics such as mean, mode, median, proportions and percentages were used to summarize analyze the quantitative data derived from likert scale.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This research project was conducted by administering a written questionnaire to managers at Agro Chemical and food company limited, Mumias Sugar Company limited and Spectre International Company limited. The three companies are large alcohol manufacturing firms in Kenya. A total of 60 questionnaires were administered by interviewing managers present at the time of my visit. Managers who were unable to present themselves for the interview, copies of questionnaires were left behind for them to complete at their own time and submit. However, of all the participants of this study, thirty (30) returned their questionnaires representing a response rate of 50%.

The data collected from the respondents were coded to create a data set in SPSS upon which various analyzed tables and statistical measures were extracted to support the . Tables of Company type, No. of respondents, respondents by departments, mean values of factors influencing pricing strategies and pricing strategies employed in these firms. An analysis of variance (ANOVA) statistics were then extracted from the data set. The analysis and interpretation of the tables and statistics are contained in the forgoing sections.

4.2 Demographics

This section presents results on the profile of respondents

4.2.1 Type of Ownership

Table 4.1 shows analysis on the company types of the firms where this study was conducted. Mumias Sugar Company is a public company quoted on the Nairobi stock exchange, Agro chemical and Food Company is a state corporation and Spectre international company limited is a private company in Kisumu Kenya.

Table 4.1: Company Type

Company Type	No of firms	Percentage (%)
Public Company	1	33.33
State Corporation	1	33.33
Private Company	1	33.33
Total	3	100

Source: Researcher 2012

4.2.2 Sales Turnover

Table 4.2 below provides an output representing these organizations by turnover. Agro Chemical and Food Company had a turnover of between Kshs. 1.5 and 2.0 billion while Spectre and Mumias Sugar Company had turnover ranging between Kshs. 1.0 billion and Kshs. 1.5 billion. (Please note that two divisions and only sales turnover from the alcohol plant was considered)

Table 4.2: Turnover by Company

Turnover (“000,000) kshs.	No of Companies	Percentage
0-500	0	0
501-1000	0	0
1001-1500	2	66.7
1501-2000	1	33.3
Total	3	100

Source: Researcher 2012

4.2.3 Respondents per Department

Respondents by departments’ area from all the questionnaires received from the three firms are analyzed in table 4.3 below. The majority of managers involved in pricing decisions in these companies are from finance and marketing departments who form 30% and 23.3% respectively. The respondents named “other” includes managers from administration, Quality control and any other manager who is indirectly involved in pricing activities but is not from the departments enlisted in table 4.3 below.

Table 4.3: Respondents per Department

Department	Frequency	Percent
Marketing	7	23.3
Finance	9	30.0
Production	4	13.3
Other	10	33.3
Total	30	100.0

Source: Researcher 2012

4.3 Factors Influencing Pricing Strategies

The respondents were asked to indicate the extent to which they agreed to the statements on generic strategic factors effect on the pricing strategies using a five point likert scale, where 5- meant "strongly agree" and 1- "strongly disagree"

Table 4.4 below indicates how the managers scored on various generic factors affecting pricing strategies in their organizations. Firm cost structure was supported as a significant factor in pricing decisions with a mean value of 4.30 which corresponds to "strongly agree" as per the scale used in the questionnaire. Pricing objectives also was fairly supported by managers with a mean of 3.85 which corresponds to "agree" as per the questionnaire. The rest of the factors industry competition, Supply and demand, Sellers knowledge and buyer's knowledge were not supported by managers of these firms. The mean scores of 3.00 and below corresponds to "neither agree nor disagree" with the statements that these factors influence pricing strategies adopted by these firms.

Table 4.4: Descriptive Statistics of Factors Influencing Pricing Strategies

	N	Mean	Std. Deviation
Firm Cost Structure	30	4.30	.908
Pricing Objectives	30	3.85	1.313
Industry Competition	30	2.32	1.269
Supply and Demand	30	3.02	1.308
Buyers Knowledge	30	2.28	1.075
Sellers Knowledge	30	2.07	1.023
Valid N	30		

Source: Researcher 2012

4.4 Pricing Strategies

Table 4.5 below shows the statistical results obtained as to what extent the respondents agreed with relevance of the statements on the pricing strategies as applied in their firms.

Table 4.5: Descriptive Statistics for Pricing Strategies

	N	**Mean**	**Std. Deviation**
PS	30	1.53	.681
PP	30	2.47	.973
CPP	**30**	**4.37**	**.809**
PVP	30	2.57	1.165
LLP	30	1.97	.850
PB	30	1.50	.509
BEP	30	2.60	1.329
PSYCHP	30	1.13	.571
ECP	30	1.47	.973
PPAIRITY	30	2.23	1.006
PSIGNALI	**30**	**3.07**	**.980**
PREPRI	**30**	**3.50**	**1.225**
PREPRICI	30	2.27	1.081
PROPRICI	30	2.10	.960
FP	30	**3.23**	1.223
PLP	30	1.47	.507
OFP	30	1.73	.868
CVP	30	2.67	1.422
LPS	30	1.67	1.516
Valid N	30		

PS - Price signaling PP – Penetration pricing CPP – cost-plus pricing PVP- Perceived value pricing LLP –Loss leader
PB- Price bundling BEP –Break even pricing PSYCHP – Psychological ECP – Experience curve PPARITY – Parity pricing
P SIGNALI – Price signaling PREPRICI – Premium pricing PROPRICI – Promo pricing FP- Flexible pricing
PLP – Product line pricing OFP – Optional feature pricing CVP – Customer value pricing LPS – Low priced supplier

From the table 4.5, Cost plus pricing had the highest mean of 4.37 followed by Premium pricing with a mean of 3.50, Flexible pricing had a mean of 3.23 and Price signaling with a mean of 3.07(the scale of scoring to the extent to which pricing strategy was employed in their firms were: 3- moderate extent, 4- to a large extent and 5- to a very large extent), these scores indicate the respondents weighting of the importance of pricing strategies to their organizations. These pricing strategies are used to a large extent by these organizations. Nevertheless, the remaining group of pricing strategies which were considered in our instrument were also employed, but to a much lesser extent as indicated by their mean scores.

4.4.1 Regression of Factors Influencing Price on Pricing Strategies

The regression results on table 4.6 below indicate that the firm cost structure is a significant determinant of pricing strategies used in the large alcohol manufacturing firms. This inference is supported by the statistic p- value = 0.002 (Pillai's Trace, Wilks' Lambda, Hotelling's Trace & Roy's Largest root) at 0.005 level of significance.

However, the results obtained for the other factors; Product demand, pricing objectives, sellers' knowledge, buyers' knowledge, and industry competition indicate that there is no significant relationship between these factors and the pricing strategies of these firms. For example; p-values for Product demand (0.587), Pricing objectives (0.107), Sellers' knowledge (0.736) Buyers' knowledge (0.901) and industry competition (0.117).

Table 4.6: Regression results of factors influencing price on pricing strategies

Independent variable		**Value**	**F**	**Significance level**
Firm Cost Structure	Pillai's Trace	.622	3.036(a)	**.002**
	Wilks' Lambda	.378	3.036(a)	**.002**
	Hotelling's Trace	1.648	3.036(a)	**.002**
	Roy's Largest Root	1.648	3.036(a)	**.002**
Product Demand	Pillai's Trace	.328	.899(a)	.587
	Wilks' Lambda	.672	.899(a)	.587
	Hotelling's Trace	.488	.899(a)	.587
	Roy's Largest Root	.488	.899(a)	.587
Pricing Objectives	Pillai's Trace	.467	1.616(a)	.107
	Wilks' Lambda	.533	1.616(a)	.107
	Hotelling's Trace	.878	1.616(a)	.107
	Roy's Largest Root	.878	1.616(a)	.107
Sellers' Knowledge	Pillai's Trace	.292	.758(a)	.736
	Wilks' Lambda	.708	.758(a)	.736
	Hotelling's Trace	.412	.758(a)	.736
	Roy's Largest Root	.412	.758(a)	.736
Buyers Knowledge	Pillai's Trace	.237	.572(a)	.901
	Wilks' Lambda	.763	.572(a)	.901
	Hotelling's Trace	.310	.572(a)	.901
	Roy's Largest Root	.310	.572(a)	.901
Industry Competition.	Pillai's Trace	.462	1.583(a)	.117
	Wilks' Lambda	.538	1.583(a)	.117
	Hotelling's Trace	.859	1.583(a)	.117
	Roy's Largest Root	.859	1.583(a)	.117

a: Exact statistic b: Design: Intercept+TRANS

Source: Researcher 2012

4.5 Discussion

The first objective of this study was to determine factors influencing pricing strategies adopted by the large alcohol manufacturers in Kenya. From above analysis of survey results, of all the factors considered in the study i.e. Supply and demand, pricing objectives, sellers and buyers knowledge, industry competition, and firm cost structure only firm cost structure (p value=0.002) is supported to significantly influence pricing strategies. The findings support pricing theories advanced for command economies that central control leads to cost based method of pricing (Glautier,2001).This theory is in contrast to the market economies where price is a function of supply, demand, and competition. Estelami and Maxwell (2003) notes that there is an increase in acceptance of marketing view of pricing and managers of businesses are accepting that they have to move pricing away from cost based methods towards market driven pricing and factor in all the other elements. The findings further supports pricing theory and oligopoly. The economic journal vol.83 no 382 December 1993 published by Blackwell & Eichner (1993) asserted that despite the overwhelming empirical evidence that most large business firms set their prices on the basis of certain percentage mark-ups above costs.
The second objective of the study was to establish the extent to which pricing strategies are employed by the large alcohol manufacturers in Kenya. The findings that cost plus pricing strategy is widely used by these firms. Equally applied are the break-even pricing, promotion pricing and product line pricing.

It is interesting to note that the large alcohol manufacturers in Kenya do not consider market-based or customer- based strategies for pricing. The market intelligence information is neglected and that was supported by the fact that few managers responded to whether buyers knowledge was important in pricing decisions. This is in contrast to customer centric firms who provide customers with more value than competitors. In today’s value conscious environment sellers must develop and communicate the overall value of their products (Grewal, et al, 1998; Zeithaml, 1988). Quality often thought to be synonymous with value is not enough to sustain competitive advantage in today’s environment, but the combination of other components of value such as brand, image, price and product features, does provide advantage (Woodruff, 1997).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This study's objective was to determine factors influencing pricing strategies adopted by the large alcohol manufacturing firms in Kenya and to establish the extent to which pricing strategies are employed. Five factors i.e. firm cost structure, product demand, pricing objectives, buyers' knowledge, and sellers' knowledge were included as independent variables against eighteen generic pricing strategies used by firms taken as the dependent variable for this study. The results of data analysis are presented in the forgoing sections of this chapter.

5.2 Summary of Findings

Findings of the study indicate that out of all the factors considered in the study, only firm cost structure was supported by respondents as significantly determining the pricing decisions in these organizations. This is inferred from the multivariate statistical output, refer to table 4.3 ($p = 0.002$). The rest of the factors i.e. product demand, pricing objectives, sellers' knowledge, buyers' knowledge, and industry competition; all have p-values greater than 0.005 and are therefore not significant in influencing pricing strategies in these firms in Kenya.

From the listed generic pricing strategies tested, the respondents supported cost-plus pricing, product line pricing, optional feature pricing, psychological pricing, lower price supplier, and premium pricing strategies as the preferred pricing strategies adopted in these firms; all of which have p-values less than 0.005 indicating greatest level of significance. See table on appendix 3.

5.3 Conclusion

From the foregoing results and the summary, I conclude that my study identified Firm cost structure as the overriding factor influencing pricing strategies in these firms. However, from the outcome of the study, these firms use a combination of strategies to set their prices for various products in the market place. These strategies are: cost-plus pricing, product line pricing, optional feature pricing, and psychological pricing, lower price supplier, and premium pricing strategies.

5.4 Recommendations

Following are recommendations derived from the study for the academia and the large alcohol manufacturing sector in Kenya. Also included are my recommendations for further study in this area.

5.4.1 Recommendations from the Study

This survey on factors influencing pricing strategies adopted by large alcohol manufacturing firms in Kenya confirms Kotler (2006) and Hoffman *et al*(2002) assertion that many companies do not handle pricing well when setting strategies, they simply determine their costs and take their industries traditional margins. It is my recommendation that these firms move towards modern pricing mechanisms where a combination of factors are used to set these prices. A firm should consider many factors in setting up its pricing policy (Duta, Zbaracki and Bergen, 2003). They observed that traditionally, a pricer has often reviewed four factors to arrive at a price. These are pricing objectives, cost, and demand and industry competition. However, it has now been established that there are other variables under pinning these factors that determine a customer's willingness to accept a price and thereby influence the pricing strategies adopted by an organization by being customer centric. These will help these organization harness best value and make these organizations competitive in both local and in the global market.

5.4.2 Recommendation for Further Study

One major assumption of my study considered that these firms were producing a single product while it is now established that these firms have several products in their portfolio, each with unique characteristics for varied applications and therefore markets. Due to these product ranges, it is possible that each product would have a specific factor or group of factors that influence their demand and hence pricing strategies. Further study should therefore be instituted to investigate how pricing strategies are developed in multi-product manufacturing firms.

In addition, the study was based on the factors influencing pricing strategies adopted by large alcohol manufacturers in Kenya from the manufacturers' point of view. A similar study should be conducted from the consumers' perspective. Results from such a study would assist the manufacturers to determine whether the strategies that they deploy are customer centric.

5.5 Limitations of the Study

The results of this study are largely based on the opinions of Managers / respondents expert opinions on firm costs, product demand, pricing objectives, industry competition, buyers' and sellers' knowledge in so far as these factors affect pricing strategies adopted by their firms. I had no control in the accuracy of this information.

Product pricing and Pricing strategies information in a firm are confidential and proprietary, hence the low questionnaire return rate of 50%. It is for this reason that a smaller sample of thirty (30) was used. This was a major limitation to the study.

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APPENDICES

Appendix 1: Questionnaire

Dear respondent. Thank you very much for agreeing to participate in this research. The information extracted shall only be used for the purposes of satisfying my masters' degree (MBA) research project requirements of the University of Nairobi. No information will be kept of any individual or corporate in whatever form or transmitted to any party whatsoever. Please take a couple of minutes to fill this questionnaire and return this questionnaire to the researcher.

PART I: General information

1. Company Name: --

2. Company type: Public Co. ☐ State Corporation ☐
   Private Co ☐ Other ☐

3. Turnover [millions of shillings]
   0-500 ☐ 501-1000 ☐ 1001-1,500 ☐ 1,501-2000 2001+ ☐

4. What is your Job level in the organization?

   CEO ☐ Manager ☐ Supervisor ☐ Other ☐

5. Are you involved in pricing activities in this company?

   Yes ☐ No ☐

6. What is your functional area [department]?

   Marketing ☐ Finance ☐ Production ☐ Other (Specify)-

7. Which of these departments is heavily involved with pricing in your company?
   Marketing ☐ Finance ☐ Production ☐
   Marketing & Finance ☐ Marketing & Production ☐
   Finance & Production ☐ All of them ☐

8. Are prices determined by an individual or a team? Yes ☐ No ☐

PART II

The following statements pertain to the factors that you consider to influence your pricing strategies. Please indicate to what extent do you agree with the following statements on a scale of 1-5, according to the scale provided?

Factors influencing pricing strategies	**Strongly Disagree (1)**	**Disagree (2)**	**Neither Agree nor Disagree (3)**	**Agree (4)**	**Strongly Agree (5)**
Firm cost structures 1. We base our pricing decisions primarily on accounting data, with the objective of getting a certain return on investment or a certain markup on costs.					
2. We consider the variable costs of making each product before we set product prices.					
3. We consider fixed costs of running the company as we set the prices					
Pricing Objectives 4. We seek to maximize the number of units sold or the number of customers served.[Quantity]					
5. Our pricing of products attempts to maximize the unit profit margin, recognizing that quantities will be low.					

6. While pricing products we set prices that will cover costs and permit the firm to remain in the market. [survival]					
Industry competition 7. We obtain price data from our industry competitors and set prices which reflects what our competitors are charging					
8. We constantly monitor our competitors price moves and set a price that would be comparable to them					
9. We use prices as a weapon in the market					
Supply and Demand 10. We use data on the perceived customer value of the product as the main factor for determining the final selling price					
11. We gauge what the customers are willing to pay for a product before we set the price					
12. Our product performance depends so much on prices set and this price sensitivity informs our pricing decisions					

Buyers Knowledge 13. Our consumers are very well informed and therefore we rely on their information heavily when setting prices					
14. Some of our consumers are not well informed and hence we don’t really investigate prices charge by competitors					
Sellers Knowledge 15. We have been producing these products for long and hence any price we charge will always be attractive.					
16. We have perfected our manufacturing processes and whatever our costs are, will always yield a competitive price.					

PART III

The following questions pertain to the pricing strategies used by the firm. Please indicate to what extent you agree with the statements.

Pricing strategies	**To no extent [1]**	**A small extent [2]**	**Moderate extent [3]**	**Large extent [4]**	**Very large extent [5]**
1.**Price Skimming** We set initial price of new products high then systematically reduce it over time. Consumers expect the price to fall					
2.**Penetration pricing** We set the prices low to accelerate product adoption and gain market share.					
3.**Cost-Plus pricing** We establish the price of a product at the point that gives as a certain profit margin or mark-up.					
4.**Perceived value pricing** We price our products based on our customer's perception of the product					
5.Loss leader pricing We mark down the price of a popular brand to attract customers and build traffic.					
6.Price bundling We offer some products as part of a bundle to serve other products					

7.Break even pricing We establish our product at a point that would allow us to recover the basic costs of developing the product					
8.Psychological pricing We set artificial list prices but offer savings to influence customers emotionally.					
9.Experience curve pricing We set the price low to build volume and reduce costs to the firm through accumulated experience					
10.Praity price We much the set by overall market or leading competitors					
11.Price signaling We use to signal the quality of our products to customers.					
12.Premium pricing We products at a premium, offering more features than our competitors					
13.Promotion pricing We set our price on periodic promotional offers to stimulate increased purchase.					
14.Flexible pricing We periodically or randomly charge different prices to different customers or different seasons.					

15.Product line pricing We price product at different price points to different product lines depending on their quality					
16.Optional feature pricing We provide optional offers at high prices along with main products which are priced low to pull customers					
17.Customer value pricing We price one version of our product at a very competitive levels offering fewer features than are available on other versions					
18.Low priced supplier We always strive to have the lowest price in the market					
19. Other. Please specify ________________________________ ________________________________					

Thank you for your valuable time

Appendix 2: Letter of Introduction

UNIVERSITY OF NAIROBI

SCHOOL OF BUSINESS

MBA PROGRAM – LOWER KABETE CAMPUS

Telephone: 732160 Ext. 208
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

Date: 3rd October, 2012

TO WHOM IT MAY CONCERN

The bearer of this letter Caleb Odhiambo Oguya

REGISTRATION NO: D61/70358/2010

The above named student is in the Master of Business Administration degree program. As part of requirements for the course, he is requesting to carry out a study on **Factors influencing pricing strategies adopted by large alcohol Manufacturers in Kenya**

He has identified your organization for that purpose. This is to kindly request your assistance to enable him complete the study.

The exercise is strictly for academic purposes and a copy of the final paper will be availed to your organization on request.

Your assistance will be greatly appreciated.

Thanking you in advance.

Sincerely,

For: **MR. ALEX JALEHA**
COORDINATOR, SOB, KISUMU CAMPUS

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Appendix 3: Regression Results Influencing Pricing Strategy Adoption in Firms

Source	Dependent Variable	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	PS	4.369(a)	6	.728	1.710	.137
	PP	2.255(b)	6	.376	.378	.890
	CPP	4.982(c)	6	.830	1.336	.258
	PVP	7.793(d)	6	1.299	.970	.454
	LLP	7.531(e)	6	1.255	1.934	.092
	PB	2.265(f)	6	.378	1.571	.174
	BEP	9.785(g)	6	1.631	.933	.479
	PSYCHP	5.132(h)	6	.855	3.285	.008
	ECP	6.527(i)	6	1.088	1.191	.325
	PPAIRITY	12.621(j)	6	2.104	2.418	.039
	PSIGNALI	2.534(k)	6	.422	.421	.862
	PREPRO	17.625(l)	6	2.937	2.244	.053
	PREPRICI	7.317(m)	6	1.219	1.070	.392
	PROPRICI	8.591(n)	6	1.432	1.694	.141
	FP	4.541(o)	6	.757	.488	.814
	PLP	4.442(p)	6	.740	3.740	.004
	OFP	7.621(q)	6	1.270	1.864	.104
	CVP	7.131(r)	6	1.188	.572	.751
	LPS	31.511(s)	6	5.252	2.734	.022
Intercept	PS	3.629	1	3.629	8.525	.005
	PP	7.088	1	7.088	7.131	.010
	CPP	55.494	1	55.494	89.259	.000
	PVP	28.485	1	28.485	21.281	.000
	LLP	8.901	1	8.901	13.713	.001
	PB	7.199	1	7.199	29.962	.000
	BEP	3.892	1	3.892	2.227	.142
	PSYCHP	.103	1	.103	.395	.532
	ECP	7.491	1	7.491	8.202	.006
	PPAIRITY	21.800	1	21.800	25.056	.000
	PSIGNALI	17.955	1	17.955	17.888	.000
	PREPRO	7.310	1	7.310	5.584	.022
	PREPRICI	9.324	1	9.324	8.179	.006
	PROPRICI	18.353	1	18.353	21.708	.000
	FP	31.901	1	31.901	20.571	.000
	PLP	3.871	1	3.871	19.557	.000

	OFP	14.624	1	14.624	21.462	.000
	CVP	10.461	1	10.461	5.031	.029
	LPS	49.862	1	49.862	25.954	.000
TRANS1	PS	1.530	1	1.530	3.595	.063
	PP	.121	1	.121	.122	.728
	CPP	.026	1	.026	.042	.838
	PVP	4.009	1	4.009	2.995	.089
	LLP	**3.603**	**1**	**3.603**	**5.551**	**.022**
	PB	1.539	1	1.539	6.406	.014
	BEP	2.867	1	2.867	1.641	.206
	PSYCHP	.354	1	.354	1.360	.249
	ECP	1.852	1	1.852	2.028	.160
	PPAIRITY	3.229	1	3.229	3.712	.059
	PSIGNALI	.343	1	.343	.342	.561
	PREPRO	5.155	1	5.155	3.938	.052
	PREPRICI	.951	1	.951	.834	.365
	PROPRICI	**3.720**	**1**	**3.720**	**4.400**	**.041**
	FP	1.846	1	1.846	1.190	.280
	PLP	**1.530**	**1**	**1.530**	**7.729**	**.008**
	OFP	**5.521**	**1**	**5.521**	**8.103**	**.006**
	CVP	.718	1	.718	.345	.559
	LPS	7.194	1	7.194	3.744	.058
TRANS2	PS	1.670	1	1.670	3.923	.053
	PP	1.125	1	1.125	1.132	.292
	CPP	.250	1	.250	.401	.529
	PVP	1.241	1	1.241	.927	.340
	LLP	.002	1	.002	.003	.958
	PB	.269	1	.269	1.121	.295
	BEP	.537	1	.537	.307	.582
	PSYCHP	.018	1	.018	.068	.795
	ECP	.003	1	.003	.003	.955
	PPAIRITY	.834	1	.834	.958	.332
	PSIGNALI	.031	1	.031	.031	.861
	PREPRO	.170	1	.170	.130	.720
	PREPRICI	.336	1	.336	.295	.590
	PROPRICI	.428	1	.428	.506	.480
	FP	.795	1	.795	.513	.477
	PLP	**1.908**	**1**	**1.908**	**9.637**	**.003**
	OFP	.011	1	.011	.017	.898

	CVP	.090	1	.090	.043	.836
	LPS	.649	1	.649	.338	.564
TRANS3	PS	.015	1	.015	.034	.854
	PP	.098	1	.098	.098	.755
	CPP	.100	1	.100	.161	.690
	PVP	.535	1	.535	.400	.530
	LLP	.209	1	.209	.322	.573
	PB	.122	1	.122	.508	.479
	BEP	3.559	1	3.559	2.037	.159
	PSYCHP	**2.144**	**1**	**2.144**	**8.234**	**.006**
	ECP	3.426	1	3.426	3.751	.058
	PPAIRITY	3.264	1	3.264	3.752	.058
	PSIGNALI	.252	1	.252	.251	.618
	PREPRO	.340	1	.340	.260	.613
	PREPRICI	.037	1	.037	.033	.857
	PROPRICI	.079	1	.079	.093	.762
	FP	.002	1	.002	.001	.970
	PLP	.484	1	.484	2.446	.124
	OFP	.168	1	.168	.247	.621
	CVP	.717	1	.717	.345	.560
	LPS	**13.663**	**1**	**13.663**	**7.112**	**.010**
TRANS4	PS	.216	1	.216	.508	.479
	PP	.290	1	.290	.292	.591
	CPP	.130	1	.130	.209	.650
	PVP	.684	1	.684	.511	.478
	LLP	1.372	1	1.372	2.113	.152
	PB	.022	1	.022	.093	.762
	BEP	.068	1	.068	.039	.844
	PSYCHP	.044	1	.044	.169	.683
	ECP	.025	1	.025	.028	.868
	PPAIRITY	.110	1	.110	.127	.723
	PSIGNALI	.013	1	.013	.013	.911
	PREPRO	4.715	1	4.715	3.602	.063
	PREPRICI	.226	1	.226	.198	.658
	PROPRICI	.009	1	.009	.010	.919
	FP	1.925	1	1.925	1.241	.270
	PLP	.007	1	.007	.034	.855
	OFP	.783	1	.783	1.150	.288
	CVP	.609	1	.609	.293	.591

	LPS	.021	1	.021	.011	.918
TRANS5	PS	.011	1	.011	.025	.875
	PP	1.175E-05	1	1.175E-05	.000	.997
	CPP	.779	1	.779	1.253	.268
	PVP	.642	1	.642	.480	.492
	LLP	.071	1	.071	.110	.741
	PB	.139	1	.139	.578	.450
	BEP	.942	1	.942	.539	.466
	PSYCHP	.796	1	.796	3.056	.086
	ECP	.392	1	.392	.429	.515
	PPAIRITY	2.463	1	2.463	2.831	.098
	PSIGNALI	.243	1	.243	.242	.625
	PREPRO	.065	1	.065	.050	.824
	PREPRICI	1.700	1	1.700	1.491	.227
	PROPRICI	2.347	1	2.347	2.776	.102
	FP	.378	1	.378	.243	.624
	PLP	.015	1	.015	.076	.784
	OFP	.363	1	.363	.533	.468
	CVP	1.633	1	1.633	.785	.380
	LPS	.806	1	.806	.420	.520
TRANS6	PS	1.269	1	1.269	2.981	.090
	PP	.011	1	.011	.011	.918
	CPP	1.870	1	1.870	3.009	.089
	PVP	.478	1	.478	.357	.553
	LLP	2.373	1	2.373	3.656	.061
	PB	.116	1	.116	.483	.490
	BEP	.329	1	.329	.188	.666
	PSYCHP	.919	1	.919	3.528	.066
	ECP	.019	1	.019	.020	.887
	PPAIRITY	2.802	1	2.802	3.221	.078
	PSIGNALI	1.786	1	1.786	1.780	.188
	PREPRO	**5.945**	**1**	**5.945**	**4.542**	**.038**
	PREPRICI	4.399	1	4.399	3.859	.055
	PROPRICI	2.986	1	2.986	3.532	.066
	FP	.052	1	.052	.034	.855
	PLP	.274	1	.274	1.385	.245
	OFP	1.111	1	1.111	1.631	.207
	CVP	4.339	1	4.339	2.087	.154
	LPS	.575	1	.575	.299	.587