DETERMINANTS OF PRICING STRATEGY AMONG FIBER OPERATORS IN KENYA

BY

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DECLARATION

This Research Project is my original work and has not been submitted 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 beloved scholarly parents Francis and Jacqueline Nakitare who consistently supported and encouraged me throughout my studies. Also to my late grand pa John and My late uncle William who held my hand to school during my formative years. Your investment in my Education was not in vain.

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ABSTRACT

The telecommunications industry in Kenya has in the recent past experienced intense turbulence; Technological advancement and regulatory restructuring have transformed the industry. Markets that were formerly distinct, discrete and vertical have coalesced across their old boundaries with a massive investment of capital much of it originating from private sector participants. The result is new markets, new players, new challenges and critical need for strategies that are effective and efficient. Strategic decisions are about the scope of an organization's activities put in perspective to enable achieve an advantage over the competitors. Strategy can also be seen as the search for a strategic fit with the business environment. This could involve major resource changes and correct positioning in terms of the extent to which products or services meet clearly identified market needs at acceptable prices.

Pricing within the telecommunication industry has been an integral element of competitive strategies among mobile operators and now fiber operators in relation to internet and other data services. The landing of the undersea fiber optic cables in Mombasa in mid 2009 signaled a new pricing regime for internet bandwidth and other data services.

This study aimed at identifying the determinants of pricing strategy among fiber operators in Kenya. A fiber operator is a company which not only carries and delivers data (internet and clear channels) over fiber optic networks, but which has also built and owns Fiber optic cabling infrastructure that it can lease to other Internet Service Providers.

The study also sought to identify the strategies that the fiber operators were using to compete as they deliver the new services in Kenya. The study was a descriptive survey where data was collected using a questionnaire with both closed and open ended questions. A total of 20 respondents from the four fiber operators in Kenya were interviewed and the response rate was 100 percent.

Findings of the research indicated that fiber operators considered the following determinants while formulating pricing strategy: cost, value, competition, the consumer and the level of demand. Cost was at the top of the list because the fiber operators had invested a lot in building fiber infrastructure and needed to at least recoup their investments and break even in order to remain competitive and sustainable. The rest of the determinants were important in helping the operators achieve their strategic goals, which included overall growth, increased market share, quality leadership, customer satisfaction and product innovation. The study also found that fiber operators in Kenya were generally using a price skimming strategy to launch the new mode of delivery of internet in Kenya. This is because majority indicated that they were ideally charging higher prices currently with the aim of reducing them later, that they had infrastructure costs to recover and that their services were highly differentiated.

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LIST OF ABBREVIATIONS

ICT	Information, Communication and Technology
TEAMS	The East African Marine cables
SEACOM	South Africa East Africa South Asia Fiber Optic Cable
EASSY	Eastern African Submarine Cables System
BPO	Business Process Outsourcing
CCK	Communication Commission of Kenya
TESPOK	Telecommunication Service Providers Association of Kenya

CHAPTER ONE: INTRODUCTION

1.1 Background

The Kenyan economy, especially after liberalization of most sectors in the mid 1980s, has continued to experience turbulence and dynamism both in the internal and external environment. Consumers have become much more informed and demanding, the threat of new entrants and availability of substitute products continue to increase. Subsequently only those firms that look into the discrete detail in their operations and come up with strategies that appeal to their strategic environments will survive.

The Beta economic watch database (2010) reports that the effects of the recent global economic crisis took a great toll on the Kenyan economy, and the situation escalated with the unfortunate incidences of the political violence in early 2008. However in the past year or so the economy has picked up and is gearing up towards registering an above the five percent growth rate. This continues to bring with it a lot of opportunities especially in ICT, construction and the financial sector. This growth potential has led business analysts in the larger world economies to refer to Kenya as the "Silicon Valley in Banking" with reference to cutting edge ICT banking innovation.

1.1.1 Pricing Strategy

Johnson, Scholes and Whittington (2008) define strategy as a game plan concerned with the long-term direction of an organization. Price is a key element of the value proposition that a company aims to deliver to consumers. Kotler (1999) defines Pricing as the process of determining what a company will receive in exchange for its products. Pricing factors

include manufacturing cost, market place demand, competition, market condition, and quality of product.

Wheelen and Hunger (2008) draw our attention to the detail of strategy formulation. They focus on showing the dependant relationship between corporate parenting strategy which views a corporation in terms of resources and capabilities that can be used to build business unit value as well as generate synergies across business units. They also discuss corporate strategy which is primarily about the choice of direction for a firm as a whole. The functional strategy is then the approach the functional area takes to achieve corporate and business objectives and strategies by maximizing resource productivity. Marketing strategy is at the functional level and deals specifically with promotion, distribution and pricing: a fundamental pivotal point in strategy development in all organizations.

Johnson, et al (2008) asserts that pricing objectives which guide strategy must be consistent with the firm's overall goals, both in the short and in the long run. Some pricing objectives that a company could set for itself include: to increase profits, market share, return on investment and product/service quality, or for survival during harsh economic conditions, to enable a healthy cash flow and to maintain a status quo if it is favourable. Strategic pricing concerns are also usually entangled with ethical issues and legal concerns which must be taken into consideration.

There are several approaches that can be used to determine strategy including cost based, the demand based, competition based, value based and market based approaches. A pricing strategy is an approach or a course of action designed to achieve a pricing,

marketing and the overall company objective. There is a growing imperative for effective pricing strategies and the time is right for companies to adopt pricing strategies that help create value for consumers (Thompson, Strickland and Gamble, 2009). There are several types of strategies that companies use to compete depending on the phase of their products on the product life cycle and the prevailing market conditions. These are differential strategies and new product pricing strategies.

Engelson (1995) identifies differential Strategies as: price discrimination which involves pricing differently for different markets, promotional pricing to create awareness of a product, premium pricing that focuses on charging more for perceived higher quality, value pricing in which they charge fairly low prices for high quality products, seasonal/periodic pricing, discounting, psychological pricing and price lining where a limited number of prices are used for all products/services. Predatory pricing and price fixing are unacceptable strategies in most Markets.

Wheelen and Hunger (2008) define Penetration pricing as the technique of setting a relatively low initial entry price, often lower than the eventual market price, to attract new customers, and Skim pricing as a strategy in which a company sets a relatively high price for a product or service at first, and then lowers the price over time. The objective of a price skimming strategy is to capture the consumer surplus. If this is done successfully, then theoretically no customer will pay less for the product than the maximum they are willing to pay.

1.1.2 The telecommunications industry in Kenya

The Telecommunications industry in Kenya just like in the rest of the world has been going through profound changes. In the past decade, technological advancement and regulatory restructuring have transformed the industry. Markets that were formerly distinct, discrete and vertical have merged with a massive investment of capital, most of it originating from private sector participants. The result is new markets, new players, and new challenges (www.tespok.co.ke , 2010).

Market liberalization efforts have also picked up following the successful partial privatization of Telkom Kenya Ltd in December 2007, divestment of the government's 25 percent stake in Safaricom Ltd through public listing in November 2008, and the landing of the undersea fiber cables at the Mombasa sea port in July 2009. This has resulted into some of the world's best know telecommunication providers – Vodafone, France Telecom and Essar Telecom becoming major players in the Kenyan market. On-going infrastructural developments by operators have largely been focused on network expansion for increased nationwide coverage.

The African ICT cursory review (2010) reveals that Kenya has taken steps to enact conducive ICT legislation in order to provide an enabling ICT regulatory regime, thus promoting open and somewhat fair competition and private sector participation. A case in point is the licensing of private mobile network operators to allow for mobile phone growth phenomenon in the country. Also, liberal telecommunication licensing regimes and the fact that the government is exempting taxes on ICT hardware and software in

order to enhance communication has provided a platform for growth. Looking at infrastructure, the government has gone beyond investing in a national fiber backbone to investing in its on marine fiber (The East African Marine Cables TEAMS) and the government is currently subsidizing satellite connectivity for the Business Process Outsourcing (BPO) sector and providing other subsidies for office space and training.

The East African Marine Cable (TEAMS) and SEACOM Cable landed at the Mombasa Seaport in mid 2009. The two came on board when it became apparent that the multi-state Eastern African Submarine Cable System (EASSY) fiber-optic cable was taking too long following initial disagreements over ownership, funding and distribution. Kenya's Fiber-optic connectivity was expected to decrease the cost of communication by at least 10 times, as fiber offers a cheaper vehicle than satellites, which predominantly supplied most of the region's communication links (www.ict.go.ke, 2010).

As internet users anxiously wait for prices to come down, industry players now say it is fundamentally detrimental to their businesses if they drop prices by the high margins expected by the market. More than one year down the line and with EASSY now testing its capacity in Kenya connectivity speeds are faster, there is a lot more bandwidth but Prices are yet to reduce as substantially as it was expected. Key stakeholders are keeping the prices at about USD600 per Megabyte, a situation that is not working well with both government and consumers (www.cck.go.ke, 2010).

1.2 The Statement of the Problem

Strategic decisions are about the scope of an organization's activities put in perspective to enable achieve an advantage over the competitors. Strategy can also be seen as the search for a strategic fit with the business environment. This could involve major resource changes and correct positioning in terms of the extent to which products or services meet clearly identified market needs at acceptable prices. (Thompson, Gamble and Strickland, 2009).

A fair price is one that is low enough to meet a markets expectation. In many cases, consumers consider a price fair simply because it is less than anticipated. Saying price is fair may be another way of saying it is lower. A socially fair price is one that is the same for everyone, does not give the unreasonably high profits, and does not take advantage of consumer's demand and so on. When describing an unfair price, personal and social fairness are often presented in tandem (Lovelock and Wirtz, 2010). When markets within which a firm competes begin to see its pricing as not being fair, it could compromise the firm's desired strategic direction.

The ICT Consumers Association of Kenya has continued to complain that Fibre Operators have deliberately refused to lower the cost of bandwidth. They insist that prices of bandwidth through fibre have gone down by as much as ninety percent and this reduction must be scaled down to the consumer. The CCK Director General, Charles Njoroge indicated that in as much as the government would want market forces to determine the internet prices, they were still out of reach for many Kenyans and were not

coming down as fast as expected. This was negating the very purpose for which the government had invested in infrastructure. This sentiment was backed by information permanent secretary Dr. Bitange Ndemo (Business Daily March, 2010).

This threat from the regulator and policy makers has raised a hue and cry from operators who argued that they were still unable to cut the prices abruptly as expected because they had costs that they had incurred and which they needed to recoup first in order for them to make a "business Case" (www.tespok.co.ke, 2010). This threat still looms and although it is yet to be enforced it continuously causes increased uncertainly and tension among industry key stake -holders.

An in-depth look at empirical data revealed that little has been done in terms of investigating pricing from a strategic management perspective and especially so in relation to internet services delivery via Fibre. Munyoki (1997) analysed factors affecting pricing strategies of selected consumer goods and found that these were mostly affected by market going rates and costs of service delivery. Mukisu (2007) looked at maize pricing and stabilization policy and revealed the pricing dynamics of maize are highly dependent on productivity and weather patterns and also had a political angle. Imitira (2006) found that the relationship between the sticky prices and market power in the gasoline market in Nairobi is highly inter- dependent. Also Eddie (2010) from the Hong Kong polytechnic university sought to find out the impact of pricing of connectivity accessories from Asia on internet prices in Kenya. He concluded that the low prices of accessories from Asia have indeed helped reduce internet service prices significantly. The

question this study sought to answer was: What are the determinants of pricing strategies among Fiber operators in Kenya?

1.3 Objectives of the study

1. The study sought to identify the determinants of pricing strategies among fiber operators in Kenya
2. To study also sought identify the pricing strategies adopted by fiber operators in Kenya

1.4 Significance of the Study

This study will be instrumental in providing a platform on which internet users can evaluate the prices they are charged for the service. It will serve to advice government, specifically the ministry of Information Communication and Technology and the Communication Commission of Kenya on the best way to proceed in dealing with the pricing standoff that bedevils the sector.

It will be important for managers in Fiber operators and other service providers because it will provide a critical analysis that will enable them understand the impact of their strategic choices in the Kenyan market and benefit from the recommendations made in the study on how they can better flow with the markets and the government. Researchers and academicians will also benefit from the study because it will contain factual literature review that they can refer to for future research work.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The aim of strategic behavior is to achieve results which are representative of business success. This includes establishing the type and level of result desired, the planning of procedures and stratagems to achieve the result and executing the actions that achieve results. A strategic plan is not a business result. It's the content of words describing a strategy. People employed, sales growth achieved, percentage profit delivered; these are business results. Jobs lost, loss of customers, loss of government good will, looming bankruptcy are also business results. Successful strategic behavior aims at achieving desirable business results and avoiding, or reducing undesirable business results. (Thompson, Gamble and Strickland, 2009).

2.2 The concept of pricing

Weiss (2008) defines Price as the amount of money and or other items with utility needed to acquire a product or a service. Setting a price for any good or service could be seen as being relatively easy because it usually doesn't take any effort just to state a number. Unfortunately, it is only when a consumer is willing to pay the price that the price has any value. Finding a willing buyer may also not indicate that a company has set the best or even a good price. And inability to sell at the set price does indicate however that you have set a bad price. Price is value worth the amount of a product that is exchanged in sale for another. Pricing in most companies is characterized by more conflict than by balance between objectives. (Johnson et al, 2008).

2.3 Strategic importance of pricing

Nagle and Hogan (2006) assert that pricing has moved to the top of many executive agenda driven by monumental and permanent shifts in the business environments. Business customers have build sophisticated chain management capabilities to extract more quality and service from providers and suppliers of goods and services while paying lower prices. Intense global competition that has long been on the horizon has become a reality with emergence of Brazil, China and India as formidable business powers capable of competing on both quality and price. (Eddie, 2010).

Product life cycles continue to shorten as competitors perfect the twin arts of innovation and imitation, making it more difficult to recoup development costs through price premiums (Etzel, Walker and Stanton, 2007). In light of these powerful forces, it is not surprising that companies suffer from increased price erosion, loss of sales volume, and declining profitability. Price affects a firm's competitive position, revenues and net profits. Never has the need for clear and effective pricing strategies been greater.

Top chief executives and strategic managers in the world over have in the recent past become infatuated with pricing. The revenue equation is pretty simple: Revenue equals the price times quantity sold. There are only two ways for a firm to grow revenue: Either to increase prices or to increase the volume of the product sold. Rarely can a firm do both simultaneously. Although there are other ways to inverse profit by controlling costs and operating expenses, the revenue side only has two variables; one being price and the

other being heavily influenced by price. Managers are also obsessed with pricing because it is the easiest of all variables to change (Mckenzie, 2008).

Pricing has been given a great deal of attention also because it is considered to be the only real means of differentiation in mature markets plagued by commoditization. When consumers see all competing products offering the same features and benefits, their buying decisions are primarily driven by price. (Nagle and Hogan, 2006).

2.4 Defining Pricing Objectives

Kotler (1999) emphasizes the importance of formulating pricing objectives as the onset of developing an effective pricing policy. Managers should decide specifically which results they would like to achieve before they know exactly how to achieve them. These objectives should be closely tied in with the company's overall business and marketing goals and as a result take into consideration what impact prices will have on the company's performance.

Pricing Objectives can be categorized into those that are profit oriented, sales oriented and status quo pricing objectives (Weiss 2008). Profit oriented pricing objectives will usually air for profit maximization, satisfactory profits and target return on investment. Sales oriented objectives push for increase in market share and sales maximization, while status quo objectives seek to maintain existing prices and meet competition's prices so as to retain current position.

Grant (1998) mentions that some companies pursue survival as their major objective if they are plagued with overcapacity, intense competition or changing consumer wants. To keep their operations running, they will cut prices. Here profits are less important than survival for as long as prices cover variable costs and some fixed costs. However survival is only a short run objective, in the long run the firm must learn to add value or face extinctions. It is worth noting that non-profit and public organizations may adopt a number of other pricing objectives. Some organizations aim for partial cost recovery, knowing that they must rely on private gifts and public grants to cover the remaining costs.

Plunkett, Fattner and Allen (2008) identify other pricing objectives as being: to obtain a target return on investment, obtain a target return on sales, to stabilize market or market price, company growth, to maintain price leadership, to desensitize customers to price, to discourage new entrants into the industry, to match competitors, to encourage the exit of marginal firms from the industry, to avoid government investigation or intervention, to obtain or maintain loyalty and enthusiasm of distributors and other sales personnel, to enhance the image of the firm, brand or product, to be perceived as fair by customers and potential customers, to create interest and excitement about a product, to discourage competitors from cutting prices, to make product visible, to build store traffic, to help prepare for harvesting of the business and to drive their social, ethical or ideological.

2.5 Approaches to formulating Pricing Strategies

2.5.1. Competition Based Determinants

Porter (1998) indicates that a product is distinctive only until competition arrives, a situation which is inevitable. The threat of potential competition is greatest when the field is easy to enter and profit prospects are encouraging. This could be in the form of directly similar products, available substitutes, and unrelated products seeking the same resource. Firms must understand customer perceptions of the organization's and the competitor's offerings in order to develop good pricing decisions. For similar or substitute products, a competitor may adjust their prices and then other firms decide what price adjustments if any are necessary to retain their customers.

When customers can choose among a number of different product substitutes, they will be much more sensitive. When there is high total expenditure to purchase and use a product, the demand for that product will be more elastic. Products that have their prices heavily promoted tend to experience more elastic demand because a slight change is easily noticeable so price sensitivity will be increase (Lovelock and Wirtz, 2010). Finally, regardless of the product category, customers will become more price-sensitive if they can easily compare prices among competing products.

Jamison (1999) captures clearly the important of the influence of industry structure in relation to competition and pricing. An industry could be perfectly competitive, Oligopolistic, or Monopolistic. Firms that use competitive matching pricing objectives face a constant struggle to monitor and respond to competitor's pricing changes.

However, a firm does not always have to match competitor's prices to compete effectively. The competitive market structure of the industry in which a firm operates affects its flexibility in raising or lowering prices. Industry structure also affects how competitors will respond to changes in price.

The product life cycle of a firms offering in relation to pricing should also be well understood because different levels of competition will be experienced at different stages of the cycle. Pricing strategy in the introduction stage is critical because it sets the standard for pricing changes over time and it determines whether a firm will make profit or not. (Plunkett, Fattner and Allen, 2008)

2.5.1. The Cost Based Determinants

Ferrell and Hartine (2008) underline the importance of considering costs seriously in any pricing strategy. A firm that fails to cover both its direct costs and its indirect costs will not make a profit. Firms make money either through profit margin, high sales volume or both. Still some measure or profit margin, even if rather small, is vital to the viability of the firm. Most smart pricing strategies build in a target profit margin as if it were a cost. When availability of a product is limited, firms must also consider opportunity costs in their pricing strategy. This is particularly appropriate for service firms like airlines which have virtual inventory. Managers should also seek to understand cost behavior at different levels of production and as a function of accumulated production.

There are determinants of price. Markup pricing involves the firm adding a percentage or amount on the cost of production. Key stoning is the practice of marking up prices by 100 percent or doubling the cost, profit maximization involves setting prices that occur when marginal revenue equals marginal cost, while marginal revenue focuses on the extra revenue associated with selling an extra unit of output, or the change in total revenue with one unit change in out-put. Break-even pricing occurs when total costs are equal to total revenue (Holden and Burton, 2008).

Cost based pricing is historically the most common pricing procedure because it carries the aura of financial prudence. Financial prudence, according to this view, is achieved by pricing every product or service to yield a fair return over all costs, fully and fairly allocated. In theory, it is a simple guide to profitability, in practice; it is a blue print for mediocre financial performance (Ferrell and Hartine, 2008).

Kotler (2002) identified a problem with cost-driven pricing because in most industries it is impossible to determine a product's unit cost before determining its price. This is because unit costs change with volume. Cost-based pricing is even more insidious when applied to strong products since there are no signals such as declining market share, to warn of the potential damage. Within a given period of time the price of the same product might have to be changed severally to reflect a level less than the cost-based target and market conditions. Cost-plus pricing leads to overpricing in weak markets and under pricing in strong ones. This is the exact opposite of a prudent strategy.

2.5.2. Demand Based Determinants

The basic laws of supply and demand as have an obvious influence on pricing strategy. Although the inverse relationship between price and demand is well known and understood, it is essentially a supply-side perspective. The relationship between price and demand is most often seen from a marketer's point of view. However, the demand-side perspective is often quite often different. Usually when customer demand for a product increases, the inverse relationship does not always follow, because prices do not necessarily fall. In fact, during periods of heavy customer demand, prices tend to stay where they are or even increase (Plunkett, Fattner and Allen, 2008).

Customer expectations regarding pricing are another important supply-and-demand issue. Buyers always hold expectations about price when they purchase products and in some cases this can drive pricing strategy. When pricing, a company must estimate the total demand for the product. The firm must also consider a middleman's reaction to price. Middle men are more likely to promote a product if they approve its price (Jamison, 1999).

2.5.4 Value Based Determinants

Weiss (2008) defines value based approach to pricing as a method based on the perceived worth of a product or service to intended customers. The price for any individual customer can be customized to reflect the specific value delivered. The managers should first identify the cost in use of the competitive product or process that the customer views as the best alternative. Then identify all factors that differentiate their product from

competitive offering, they should then determine the value to the customer of these differentiating factors, then finally add up the reference value and the differentiation value to determine the economic value.

Dolan and Simon (1996) insist that value based pricing is usually the most profitable form of pricing if the value chain is managed effectively. It allows a firm to set its price relatively low but still offers high quality products and adequate customer services. An intriguing article in the November Harvard Business Review (2008) says that a value price is neither highest nor lowest in market but it is consistent with the benefits and costs associated with acquiring the product .This requires the firm to manage its value chains and supply chain in a way that allows the it to focus resources on only those activities that deliver value in the most efficient way.

2.5.5. Consumer Based Determinants

Using this approach, firms price their products on the basis of the psychological message the price sends to the consumer. In order to underline an image of quality and prestige, the firm can set the price at the top end of all competing products. A firm can also give a low price so as to attract the consumer who is sensitive to price and is not too keen on quality. There are also situations when one can hardly judge the true value of the product and so the subjective valuation by the consumer and what they are willing to pay for it will guide the pricing of the same (Lovelock and Wirtz, 2007).

2.6 Pricing Strategies for New products

McKenzie (2008) defines a pricing strategy as a basic, long-term pricing framework, which establishes the initial price for a product and the intended direction for price movements over the product life cycles. New product pricing strategies are:

2.6.1 Price Skimming

Holden and Burton (2008) discuss the practice of price skimming as one that involves charging a relatively high price for a short time where a new, innovative, or much improved product or service is launched onto a market. The objective here is to skim off customers who are willing to pay more to have a product sooner. Prices could be lowered later when demand from the early adopters falls. The success of price skimming strategy is largely dependent on the inelasticity of demand for the product either by the market as a whole, or by certain market segments. High prices can be enjoyed in the short term where demand is relatively inelastic. In the short term the supplier benefits from monopoly profits, but as profitability increases, competing suppliers are likely to be attracted to the market and the price will fall as competition rises.

The Harvard Business Review (2008) indicates that companies benefit from skimming where a highly innovative product is launched; research and development costs are likely to be high, as are the cost of introducing the product to the market via promotion, advertising and building infrastructure. In such cases the practice of price skimming allows for some return on the set-up costs. It is also applicable effectively when a company has a very strong patent position or the product is difficult to imitate. Skimming

could allow a company to build a high quality image for its product. Charging initial high prices allows the firm the luxury of reducing them when the threat of competition arrives. By contrast, a lower initial price would be difficult to increase without risking the loss of sales volume (Grant, 2008).

Price skimming can be an effective strategy in segmenting the market. A firm can divide the market into a number of segments and reduce the price at different stages in each, thus acquiring maximum profit from each segment (Kotler, 2002). Where a product is distributed via dealers the practice of price skimming is useful, since high prices for the supplier are translated into high mark ups for the dealer. For conspicuous or prestigious goods the practice of price skimming can be particularly successful, since the buyer tends to be more prestige conscious than price conscious. Similarly, where the quality differences between competing brands is perceived to be large, or for offerings where such differences are not easily judged, the skimming strategy can work well (Plunkett, Fattner and Allen, 2008).

Price Skimming is only effective when the firm is facing an inelastic demand curve. If the long run demand schedule is elastic, then market equilibrium will be achieved by quantity changes rather than price changes. A price skimmer must be careful with the law. Price discrimination is illegal in many jurisdictions, but yield management is not. Price discrimination uses market characteristics such as price to adjust prices, whereas yield management uses product characteristics (Kotler, 2002).

Grant (1998) demonstrates how inventory turn rate can be very low for skimmed products. This could cause problems for a company's distribution chain. Skimming encourages the entry of competitors. Skimming results in a slow rate of diffusion and adaptation. This results in a high level of untapped demand. This gives competitors time to either imitate the product or leap frog it with a new innovation. While high margins are good they may make a company inefficient since there will be no incentive to keep costs under control. The company could also develop negative publicity if the price is lowered too fast and without significant product changes. Some early purchasers will feel they have been ripped off and the negative sentiment could be transferred to the brand and the company as a whole.

2.6.2 Price Penetration Strategy

Holden and Burton (2008) define penetration pricing as the pricing technique of setting a relatively initial entry price that is often lower than the eventual market price. The expectation is that the initial lower price will secure market acceptance by breaking down existing brand loyalties. Penetration pricing is most commonly associated with a marketing objective of increasing market share or sales volume rather than short term profit maximization

Nagle and Holden (2002) discuss how Price penetration can result in fast diffusion and adoption of a product leading to achievement of high market penetration rates, taking competition by surprise without allowing them time to react. It creates cost control and cost reduction pressures from the start, leading to greater efficiency. Price penetration

discourages the entry of competitors. Low prices act as a barrier to entry. It can also create high stock turnover throughout the distribution channel and lead to enthusiasm and support within the distribution channel. This strategy can be based on marginal cost pricing which is economically efficient.

Porter (1998) says the strategy is most appropriate when product demand is highly price elastic substantial economies of scale are available and the target is a mass market. Managers adopt this technique when they know their product will face stiff competition soon after introduction and there is inadequate demand in the low elasticity market segment for price skimming. In industries where standardization is important, the product that achieves high market penetration often becomes the industry standard causing the other products even though more superior to be marginalized by the market.

This strategy establishes long term price expectations for the product and image preconceptions for the brand and the company. This makes it difficult to eventually raise the prices if the need to arises. It could also attract switchers who move away when another cheaper product arrives. Another potential issue here is that the low profit margins may not be sustainable long enough for the strategy to be effective (McKenzie, 2008).

Other strategies are price discrimination which is illegal in many jurisdictions, but closely related to yield management. Price skimming can be considered either a form of price discrimination or a form of yield management. Price discrimination uses market

characteristics (such as price elasticity) to adjust prices, whereas yield management uses product characteristics. Companies see this legal distinction as quaint since in almost all cases market characteristics correlate highly with product characteristics. Predatory pricing and price fixing are also unacceptable in most Markets

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The value of this paper lies in the fact that it presents the first attempt to empirically identify the pricing strategy among fiber operators in Kenya with a view to understanding the determinants of these strategy choices. This chapter describes the methods that were used to collect and analyze pertinent data in order accomplish the study objectives.

3.2 Research Design

This study was a descriptive Survey, undertaken in order to ascertain and be able to describe the characteristics of the variables of interest. It also sought to understand the relationships between the variables in the already existing situation. The variables in the study were the determinants of pricing strategies and the pricing strategies.

3.3 Target Population

The population of interest was all Fiber operators in Kenya. A fiber operator was a company which not only did data delivery and transmission over fiber, but which laid and owned Fiber optic cabling infrastructure that could be leased to other Internet Service providers. The target respondents list was comprised of members of the pricing committees, who include the heads of strategy and infrastructure roll out, the general managers, marketing managers, sales managers, and finance managers

3.5 Data Collection

Data collection was primarily done using a four part semi structured questionnaire with both closed and open ended questions. The first part sought to provide a profile of the company; the second part looked at the strategic position of the company seeking to understand how the company perceives itself within the sector. The third part contained elements and the various levels on which the company handled those elements and got data on the determinants of pricing strategies. The fourth part looked at identifying the specific entry strategies being adopted by the company and also had an open ended section to understand how these fit into the business environment in relation to the overall direction of the firm. Telephone calls were be used to follow up on unclear responses and to ensure completeness and consistency.

3.6 Data Analysis

Before analyzing the responses, the questionnaires were edited for completeness and consistency. The data was then be coded and checked for errors and omissions. A descriptive analysis of the data was done using measures of central tendencies and dispersions of the various variables used to determine pricing in fiber operators. Measures of central tendency such as the mean and standard deviation were used to establish converging relationships through classification of the variables versus the responses to then conclude on exactly what pricing strategies are employed among fiber operators. Where applicable, significance of correlation was tested in relation especially to the profiling. Frequency distributions were illustrated through bar graphs and pie charts.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The completed questionnaires were edited for completeness and consistency before analysis. In this chapter the results are presented via tables and graphs in order of the objectives. A total of four companies were targeted and none of the twenty questionnaires circulated was considered unusable at the editing stage, giving the study a 100 percent response rate.

4.2 Industry profile

This section gives the demographic profile of the companies and the positions of the respondents who completed the questionnaires. It describes the ownership, the number of years in existence, the client base and products and service offering of fiber operators in Kenya. The findings are presented below.

Table 4.1 Industry profile

Name	Jamii Telecom	Kenya Data Networks	Access Kenya	Wananchi group
Ownership	Private	Private	Public	Private
No of years in existence	6	15	12	10
No. of employees	100	150	350	50
Current client base	500	2500	7000	350

4.3 Strategic position of company in industry

This section identifies the strategic direction of the fiber operators, the market leader among the fiber operators and the basis upon which the market leader is chosen within the industry. The section also sought to find out the dollar drop in pricing per megabyte of internet bandwidth from the satellite delivery regime to the fiber delivery regime after July 2009. The findings are presented below.

Table 4.2 Overall goal of the company

Company goal	Frequency	Percentage
Overall growth	7	17%
Customer satisfaction	15	37.5%
Production innovation	5	12.5%
Cost leader	0	0
Market share growth	9	22.5%
Quality Leadership	4	10%

4.3.1 Market Leader

80 percent of the respondents chose Kenya Data Networks as the market leader on the basis of extent of their fiber infrastructure coverage. The remaining 20 percent chose Jamii Telecom and based this choice on the quality of the service they deliver.

4.3.2 Industry pricing

Majority of the respondents indicated that the price of internet bandwidth per mega byte reduced from USD 3000 to USD 600 with the advent of the undersea fiber cables in July 2009.

4.4 Pricing Determinants

In this section, data was collected to establish the extent to which various pricing determinants were considered by fiber operators when coming up with their pricing strategies. The data is present below:

4.4.1 Competition

The study sought to determine the extent to which companies consider competition while determining the price for new fiber internet bandwidth. This was tested on a four point likert scale where the respondents were asked to indicate the extent to which different elements of competition affected the pricing. On the likert scale, 1 was used to represent "No consideration", 2 represented "Fair consideration" 3 represented "A good amount of consideration" and 4 represented "A great deal of consideration".

The score "No consideration" was taken to be equivalent to mean score ranging from 0.0 to 1.0, "Fair consideration" represented mean score ranging from 1.1 to 2.0, "A good amount of consideration" represented mean score ranging from 2.1 to 3.0 and "A great deal of consideration" represented mean score of 3.1 to 4.0. A standard deviation of > 1

represents a significant difference in the responses given. The findings of the study were as presented in Table 4.3.

Table 4.3 Elements of Competition

Elements of competition	Number	Mean	Std. Deviation
Competitors prices	20	3.10	0.912
Estimation of competitor's strength to react	20	2.20	0.696
Competitor's current pricing strategy	20	2.50	0.607
The level of product differentiation	20	3.35	0.813
The degree of competition in the market	20	3.25	0.639

Table 4.3 shows that competitor prices, the level of product differentiation and the degree of competition in the market was given a great deal of consideration (mean score ranging from 3.1 to 4.0). The findings also show that the estimation of competitors to react and the competitor’s current pricing strategy were given a good amount of consideration (mean score ranging from 2.0 to 3.0). There was no significant difference on the responses given on the elements of competition tested by the study (all standard deviations were less than 1).

4.4.2 Cost

The study also sought to determine the extent to which companies consider cost while determining the price for new fibre internet bandwidth. This was also tested on a four point likert scale where the respondents were asked to indicate the extent to which different elements of cost affected the pricing. On the likert scale, 1 was used to represent

"No consideration", 2 represented "Fair consideration" 3 represented "A good amount of consideration" and 4 represented "A great deal of consideration".

The score "No consideration" was taken to be equivalent to mean score ranging from 0.0 to 1.0, "Fair consideration" represented mean score ranging from 1.1 to 2.0, "A good amount of consideration" represented mean score ranging from 2.1 to 3.0 and "A great deal of consideration" represented mean score of 3.1 to 4.0. A standard deviation of > 1 represents a significant difference in the responses given. The findings of the study were as presented in Table 4.4.

Table 4.4 Elements of cost

Elements of Cost	**Number**	**Mean**	**Std. Deviation**
To break even	20	3.50	0.688
Variable cost recovery	20	3.60	0.681
Fixed cost recovery	20	3.55	0.686
Achieve a target rate of return	20	3.30	0.733

Table 4.4 shows that all the elements of cost tested (to break even, variable cost recovery, fixed cost recovery and achieving a target rate of return) were given a great deal of consideration (all mean scores ranging from 3.1 to 4.0). A further scrutiny of the findings showed that variable cost recovery was given the highest consideration among other elements (mean score of 3.60). There was no significant difference on the responses given on the elements of cost tested by the study (all standard deviations were less than 1).

4.4.3 Demand

The study further sought to determine the extent to which companies consider demand while determining the price for new fiber internet bandwidth. This was tested on a four point likert scale where the respondents were asked to indicate the extent to which different elements of demand affected the pricing. On the likert scale, 1 was used to represent “No consideration”, 2 represented “Fair consideration” 3 represented “A good amount of consideration” and 4 represented “A great deal of consideration”.

The score “No consideration” was taken to be equivalent to mean score ranging from 0.0 to 1.0, “Fair consideration” represented mean score ranging from 1.1 to 2.0, “A good amount of consideration” represented mean score ranging from 2.1 to 3.0 and “A great deal of consideration” represented mean score of 3.1 to 4.0. A standard deviation of > 1 represents a significant difference in the responses given. The findings of the study were as presented in Table 4.5.

Table 4.5 Elements of Demand

Elements of Demand	Number	Mean	Std. Deviation
Level of demand	20	3.30	0.733
Price sensitivity of the target market	20	2.85	1.040
Availability of substitute products	20	2.95	0.686
Middleman's reaction to price	20	2.30	1.031

The findings on Table 4.5 shows that the level of demand was given a great deal of consideration in the determination of pricing for the new fiber internet bandwidth (mean

score of 3.30). The findings also show that price sensitivity of the target market, availability of substitute products and middleman's reaction to price were given a good amount of consideration (mean score ranging from 2.1 to 3.0). There was a significant difference in the responses given on price sensitivity of the target market and on the middleman's reaction to price (standard deviation > 1).

4.4.4 The consumer

Regarding the extent of the consideration of consumers' reactions, the respondents were asked to indicate the extent to which they consider different reactions and response of the consumers on pricing. This was tested on a four point likert scale where the respondents were asked to indicate the extent to which they considered different reactions of consumers in determining the prices. On the likert scale, 1 was used to represent "No consideration", 2 represented "Fair consideration" 3 represented "A good amount of consideration" and 4 represented "A great deal of consideration".

The score "No consideration" was taken to be equivalent to mean score ranging from 0.0 to 1.0, "Fair consideration" represented mean score ranging from 1.1 to 2.0, "A good amount of consideration" represented mean score ranging from 2.1 to 3.0 and "A great deal of consideration" represented mean score of 3.1 to 4.0. A standard deviation of > 1 represents a significant difference in the responses given. The findings of the study were as presented in Table 4.6.

Table 4.6 the consumer

The consumer's reaction	Number	Mean	Std. Deviation
Consumer's perception of price	20	3.05	0.759
Consumer's response to price	20	3.00	0.725
Consumer's response to competitor's price	20	3.35	0.933

Table 4.6 shows that consumers' perception of price and their response to competitors' price was given a great deal of consideration (mean score ranging from 3.1 to 4.0). The findings also show that consumers' response to price was given a good amount of consideration in pricing. There was no significant difference on the responses given by the respondents.

4.4.5 Value

The study finally sought to test on the extent to which the companies consider value in the determination of the pricing on new fiber internet bandwidth. This was also tested on a four point likert scale where the respondents were asked to indicate the extent to which they considered different elements of value in determining the prices. On the likert scale, 1 was used to represent "No consideration", 2 represented "Fair consideration" 3 represented "A good amount of consideration" and 4 represented "A great deal of consideration".

The score "No consideration" was taken to be equivalent to mean score ranging from 0.0 to 1.0, "Fair consideration" represented mean score ranging from 1.1 to 2.0, "A good

amount of consideration" represented mean score ranging from 2.1 to 3.0 and "A great deal of consideration" represented mean score of 3.1 to 4.0. A standard deviation of > 1 represents a significant difference in the responses given. The findings of the study were as presented in Table 4.7.

Table 4.7 Elements of Value

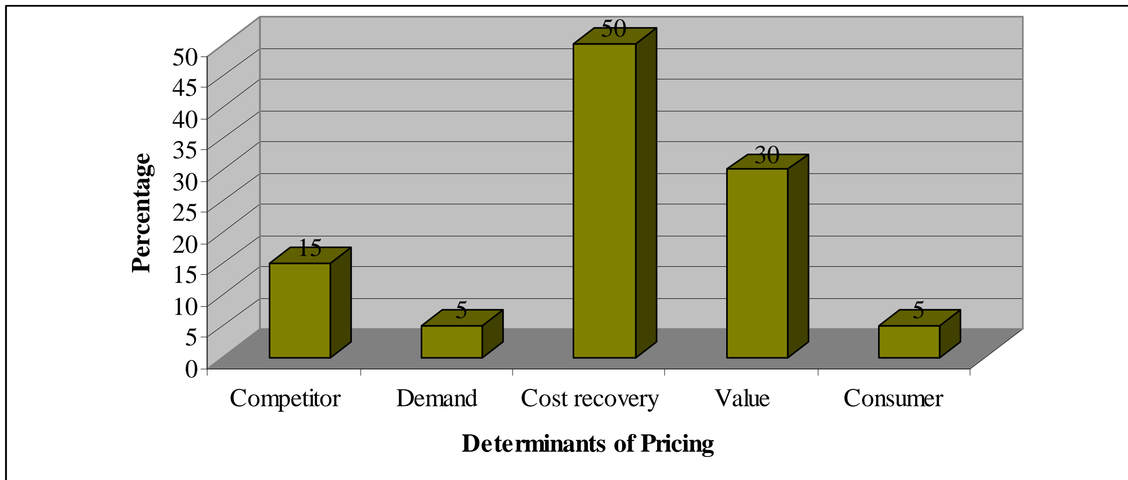
The elements of Value	Number	Mean	Std. Deviation
Consumer's perceived value of product	20	3.50	0.688
Balance of cost and benefit	20	3.55	0.686
Product positioning	20	3.50	0.607

The findings on Table 4.7 show that all the elements of value tested were given a great deal of consideration (mean score ranging from 3.1 to 4.0). There was no significant difference in the responses given by the respondents (all standard deviations were less than 1).

4.5 The comparative strength of each pricing determinant

The respondents were asked to indicate the extent to which they considered different determinants in pricing. The study found that ten (50%) of the respondents indicated that they considered cost recovery, six (30%) indicated that they considered value, three (15%) indicated that they considered competitor and one (5%) considered demand and the consumer respectively. From the findings of the study, it can be concluded that cost was the major determinant of pricing for new fiber network bandwidth. The findings of the study were as presented in Figure 4.1.

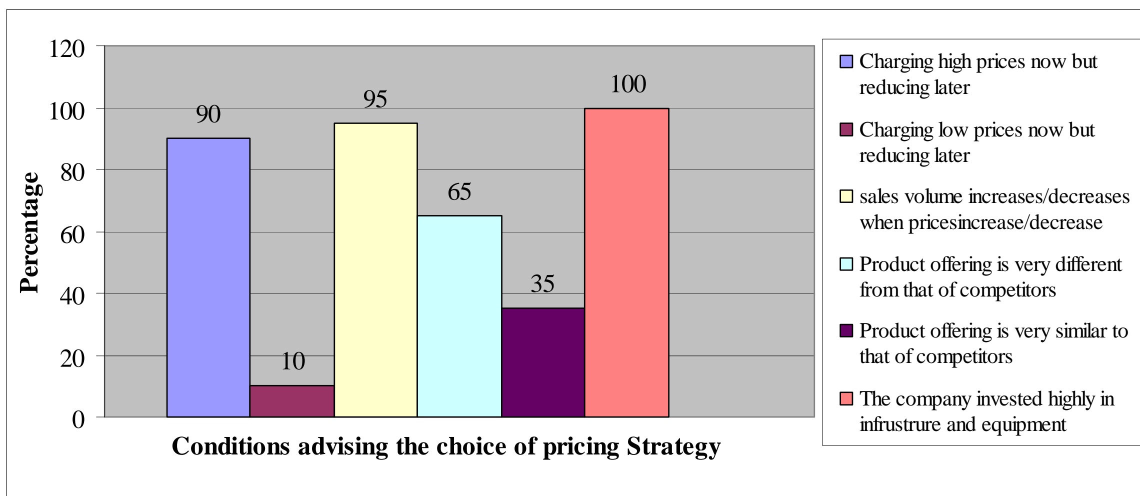
Figure 4.1 The comparative strength of each pricing determinant



4.6 Prevailing industry conditions and pricing strategy

To establish the conditions determining the choice for pricing strategy, the respondents were asked to indicate whether they considered different condition in pricing strategy. The findings of the study were as presented in figure 4.2.

Figure 4.2 Prevailing industry conditions and pricing strategy



The findings on Figure 4.2 shows that one of the conditions advising pricing strategies used by companies is the high investment infrastructure and equipments as indicated by all respondents twenty (100%). Another condition increasing or decreasing the prices which affected the sales volume as indicated by nineteen (95%). The study also found that the companies charge highest possible prices initially and then they reduce later as indicated by eighteen (90%). The final strategy was offering products which are different from the competitors as indicated by 65 percent

4.7 Effectiveness of Company's pricing strategy

In establishing the opinion of the respondents on the effectiveness of company's pricing model in driving the company towards desired strategic direction the respondents were asked to whether their model was effective or not. The study found that 80 percent of the respondents indicated that their company's pricing model was effective while 20 percent indicated that their model was not effective in achieving the desired strategic direction.

The respondents were further asked to give reasons for their responses. The following were the reasons for those who were of the opinion that their model was effective: that they have achieved quality and value positioning, that they have managed to position their products as leaders, that they have adjusted their prices according to reduction of bandwidth price and that they have increased their market share and sales volume.

4.8 Justification of the government and regulator's plea for reduction of prices

Regarding the justification for the plea to fiber operators to reduce prices, the study found that sixteen (80%) of the respondents indicated that the government was not justified to

reduce the prices while four (20%) agreed that the government is justified to reduce the prices.

Asked to give the reasons for their suggestions, those who agreed that the government and the CCK were justified to lower the prices mentioned that it was not ethical for the companies to charge high prices to gain from their investments faster than normal, that it is one of the ways of increasing digital literacy and therefore should be made cheaper and that most of the fiber operators pass the costs to the clients.

Those who disagreed that the government and the CCK were not justified to lower the prices and mentioned the following reasons: that the government should consider the cost distributing the network lines, that there is still low demand for the network to warrant the reduction in prices, that maintaining the infrastructure is very expensive and that they still need the finances to cater for more distribution.

4.9 Suggestions on ways to reduce internet prices

The respondents were finally asked to give their suggestions on the ways by which the government and the general business environment can help to facilitate fiber operators to adjust their prices in a sustainable manner. The following were the responses given: that the use of the products and applications that increase the use of the infrastructure should be encouraged, that that the government should reduce the cost of laying the fiber for example: the way leaves charged by the city and municipal councils and the annual levy fees, that the government should promote the use of electronic services, that the government should lower taxes on telecommunication equipments and infrastructure materials and that the government should have a baseline prices for all operators.

CHAPTER FIVER: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter sets out to draw conclusions that will address the research objectives outlined in chapter one and make recommendations in lieu of the findings. The study was a descriptive survey whose objectives were to identify the determinants of pricing strategies among fiber operators in Kenya and to identify the pricing strategies adopted by fiber operators in Kenya. The findings relating to each objective are discussed below;

5.2 Summary and Conclusion

The study identified the determinants of pricing strategy among fiber operators in Kenya as; competition, cost, level of demand, value and the consumer. It revealed that all the determinants listed were considered by fiber operators while formulating pricing strategy, but the key determinant in this process was cost. The operators had invested a lot in building fiber infrastructure and it is recovery of these costs, both variable and fixed to enable them break even and achieve a set return on investment that mainly drives their pricing strategy formulation.

The study puts the element of value as the next important in this process. To the fiber operators, a balance of cost and benefit, the consumer's perception of their products and the positioning of their product were crucial as they formulate pricing. The study also revealed the importance of competition as a driver of pricing. Competitor prices, the level of product differentiation and the degree of competition in the market were greatly

considered, while the estimation of the competitor's strength to respond to their prices and the competitor's pricing strategy was not as strongly considered as the former there elements of competition.

On demand related elements, the findings show that price sensitivity of the target market, availability of substitute products and middleman's reaction to price were given a good amount of consideration when determining pricing and so was the level of demand of their products within the market. The study finally reveals that consumer's perception of their prices, consumer's response to competitor's price were very crucial while the consumer's response to their prices was given a good amount of consideration while formulating pricing strategy.

A similar study by Munyoki (1997) analysed factors affecting pricing strategies of selected consumer goods and found that market going rates and costs of service delivery affected the pricing of the consumer goods. These findings relate very closely to the element of competitor prices and cost recovery found in this study. Mukisu (2007) studied the maize pricing and stabilization policy and his findings were much more related to whether patterns and to social political factors rather than to the five elements found in this study.

Imitira (2006) looked at pricing strategies within gasoline market in Nairobi and found that the sticky pricing models within this industry are highly dependent on market power,

findings far removed from those of this study. Eddie (2010) from Hong Kong polytechnic university sought to find out the impact of the pricing of connectivity accessories from Asia on internet prices in kenya. His findings revealed that the low prices of these accessories have helped reduced the prices of internet services in Kenya. This finding is in tandem with the very high consideration of cost recovery among fiber operators' formulation of pricing strategy.

The second objective of the study was to identify the pricing strategies adopted by fiber operators in Kenya. The pricing strategy options available for new products or services are pricing skimming and price penetration. In order to be able to draw a clear conclusion on which of the two the operators were adopting, the respondents were provided with seven options representing typical prevailing conditions that surround pricing for entry into new markets, and required to pick four that represented their current situation. From their responses, it was revealed that all the fiber operators had invested highly in laying fiber infrastructure, that their product offerings were differentiated from their competitor's offerings, that their sales volumes fluctuate commensurate to price fluctuation and finally that they were charging relatively high prices for their services now then plan to reduce them later after recouping their costs. This is a price skimming strategy.

The profiling of the fiber operators revealed that majority of them are privately owned on only one being publicly listed and none at all having some form of government ownership. This qualifies their emphasis on cost recovery because the businesses depend

squarely on private funding which has to then generate an income for the shareholders. It is also clear that fiber operators have kept a lean structure with just enough employees a move aimed at managing costs to enable them survive and compete.

The study covertly also sought to find out whether the pricing models adopted were effective in driving the company towards it desired strategic direction. Majority of the respondents said the models were effective because they had enabled the operators to manage quality delivery of service, to have value positioning of their services and the market leaders indicated that they have managed to remain leaders in the industry. They also indicated that with the price adjustments in bandwidth prices they have increased sales volume and subsequently increased their market share.

Majority of the operators indicated that the government and the CCK was not justified in demanding further price reductions because it was not doing much to mitigate the costs incurred to deploy fiber infrastructure, that there is still low demand for the internet services to warrant a further reductions. A few however agreed that the internet is a crucial mode of driving the country ahead and should therefore be made cheaper in the long run.

On suggestions on the ways by which the government and the general business environment can facilitate fiber operators to adjust their prices in a sustainable manner, the fiber operators indicated that the use of the products and applications that increase the use of the fiber infrastructure should be encouraged, that the government should reduce

the cost of laying the fiber for instance the way leaves charged by the city and municipal councils, the annual levy fees and rates charged by building owners should be reduced, that the government should promote the use of internet and electronic services, that the government should lower taxes on telecommunication equipments and infrastructure materials and that the government should have a baseline prices for all operators.

5.2 Limitations of the study

This study had various limitations. To begin with some of the target respondents were from very senior management and did not have enough time to complete the questionnaires as thoroughly as required and also to deliberate on some of the issues keenly especially when completing the likert scale questions on the questionnaire. It was also realized that some responses might have had a level of bias when some respondents learnt that the study was being undertaken by an employee from one of the fiber operators. The study also focused on the fiber operator's perspective. It would have been of value to obtain the views of other stake holders such as the consumers of internet, policy makers and the government.

5.3 Suggestions for further research

This study focused on determinants of pricing strategy among fiber operators in Kenya. Delivery of internet on fiber infrastructure is a new service in Kenya and the findings of this study cannot be generalized because other industries have different determinants to pricing strategy, depending on their industry structure and the point at which they are on the product life cycle. There is, therefore a need to do more research on determinants of

pricing strategy in other industries. The study also focused on five general determinants that are cost, competition, the consumer, value and the level of demand, while there are other very important elements that could determine pricing like value chain analysis. There is, therefore also a need to do more research in management of value chains among fiber operators in Kenya.

5.4 Recommendations for policy and practice

It is imperative that fiber operators work in tandem with policy makers and government to reduce the prices of internet. Cost has been seen as the key determinant to pricing in this industry and suggestions have be made on how to have a multifaceted approach to managing prices of internet which is a crucial service within a sector that is driving the country towards a greater vision. More emphasis also needs to be given to value for the end users of the service than on cost, and competition have to be managed effectively to ensure sustainability of the industry. Key stake-holders should drive an increase in the demand of internet services in the country and participate in increasing penetration of last mile infrastructure to the end users.

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QUESTIONNAIRE FOR COLLECTING DATA FOR A STUDY ON PRICING DETERMINANTS AMONG FIBER OPERATORS IN KENYA

SECTION 1: Company Profile

1. Company Name: ____
2. Position Within Company:____
3. How long has the company been in existence? ______________________________
4. How many employees work with the company? ______________________________
5. What is your current client base? ____
6. Indicate the ownership of the company________________________________
7. What are your main product/service offerings? ______________________________
____

SECTION 2: Strategic Position of Company

1. Briefly state the mission and vision of the company.

____
____
____
____
____

2. Which 2 of the following describe best the overall Goal of your company?

☐ Overall growth ☐ Customer Satisfaction ☐ Product innovation
☐ Cost leader ☐ Market share growth ☐ Quality Leadership

3. Which of the following is the market lead leader among the fiber operators?

☐ Jamii Telecommunications ☐ Kenya Data Networks
☐ Access Kenya ☐ Wananchi Online

4. What in your opinion advised your choice of a market leader in this sector?

   - ☐ Extent of Fiber infrastructure coverage
   - ☐ Quality of service delivery
   - ☐ No of customers'
   - ☐ End user prices

5. Kindly indicate the general going rate of internet prices in Kenya per Mega byte in the following mode of delivery regimes. (Give a range)

   - Via Satellite before July 2009 ____________________________
   - Via Under Sea cables after July 2009_________________________

SECTION 3: Pricing determinants

1. To what extend did the company take into consideration the following Elements while determining the pricing for the new fiber internet bandwidth in Relation to:

A). Competition

Elements	**No Consideration**	**Fair Consideration**	**A good amount of consideration**	**A great deal of consideration**
Competitors prices				
Estimation of competitor's strength to react				
Competitors current pricing strategy				
The level of product differential				
The Degree of competition in the market				

B). Cost

Element	**No Consideration**	**A fair amount of consideration**	**A good amount of Consideration**	**A great deal of consideration**
To break even				
Variable cost Recovery				
Fixed cost Recovery				
Achieve a target rate of return				

C). Demand

Element	**No Consideration**	**A fair amount of consideration**	**A good amount of Consideration**	**A great deal of consideration**

Level of Demand				
Price sensitivity of target market				
Availability of substitute products				
Middle man's reaction to price				

D).The Consumer

Element	**No Consideration**	**A fair amount of consideration**	**A good amount of Consideration**	**A great deal of consideration**
Consumers perception of price				
Consumers response to price				
Consumer's response to competitors price				

e). Value

Element	**No Consideration**	**A fair amount of consideration**	**A good amount of Consideration**	**A great deal of consideration**
Consumers perceived value of product				
Balance of cost and benefits				
Product Positioning				

2. Which of the following do you consider the generally the most important when formulating price.

 Price like competitor
 Price depends on the number of customers in need of the service
 Cost Recovery
 Cost to match benefit
 Consumer perception

3. Which of the following conditions advise your choice of pricing strategy? (Pick any four)

 Charge highest possible now but reduce later

- Charge low price now but increase it later
- Sales volumes increase/decrease when prices increase/decrease
- Product offering is very different from that of competitors
- Product offering is very similar to that of competitors
- The Company invested highly in infrastructure & Equipment.
- The Company invested little in infrastructure & Equipment.

4. In your opinion, has your company's pricing model so far been effective in driving the company towards the desired strategic direction? Explain your answer

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5. Is the government and the CCK justified in demanding that fiber operators drop their prices further because of the cheap capacity from the undersea cables? Explain briefly your answer.

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6. Are there ways in which the government and the general business environment at large can help facilitate fiber operators adjust their prices in a sustainable manner? Kindly indicate at least 4 ways.

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Fiona Yiyah Nakitare
University of Nairobi
School of Business
Dept. of Business
Administration
P.O BOX 30197
NAIROBI

16th August 2010

Dear Respondent,

RE: COLLECTION OF DATA FOR ACADEMIC SURVEY RESEARCH

I am a post graduate student at the University of Nairobi undertaking an MBA in Strategic Management. In order to fulfill the degree requirement, I am undertaking a management research project on pricing strategies in Fiber operators in Kenya. I would like to kindly request you to assist me with my data collection by filling out the accompanying questionnaire.

Kindly note that the information or data you provide will be used exclusively for academic purposes and will be handled in outmost confidence.

Your cooperation will be highly appreciated

Yours Faithfully

Fiona Yiyah Nakitare
Student

Dr. Gakuru
Lecturer/Supervisor