A SURVEY OF PRICING STRATEGIES ADOPTED BY MANUFACTURERS OF FAST MOVING CONSUMER GOODS IN MOMBASA DISTRICT & ITS ENVIRONS

RESEARCH PROJECT

Presented By:

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DECLARATION

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

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13.11.2009.

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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 mother Beatrice Wanjira Wamiori who worked tirelessly to see me through school and instilled in me the spirit of hardwork.

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I am grateful to God for the gift of life and for enabling me go through this course. I am also greatly indebted to my supervisor, Mrs. Mary Kinoti for her patience in guiding me through this project. Her encouragement and support inspired me to keep trying.

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LIST OF ABBREVIATIONS

- FMG - Fast Moving Consumer Goods
- KAM - Kenya Association of Manufacturers
- MTA - Mombasa Tea Auction
- KMC - Kenya Meat Commission
- FOB - Free on Board
- NSE - Nairobi Stock Exchange

ABSTRACT

The research was about extent to which firms in the fast moving consumer goods use pricing strategies. It was carried out in Mombasa District and its environs. Its main objective was to determine the extent to which various pricing strategies are used by manufacturers of fast moving consumer goods in Kenya. Other specific objectives were to establish the extent to which various factors influence the choice of pricing strategies and to establish the challenges faced by firms in using the various pricing strategies.

The study will be useful to fast moving consumer goods firms as they will be able to use better pricing policies. Manufacturers of other products will also benefit from the study. The study will also be beneficial to the government as it will help them to know how manufacturers of fast moving consumer goods price their products.

The literature review was discussed in length which comprised of reference to major important studies about pricing strategies in the fast moving consumer goods sector. The source of literature review comprised of books from marketing, journals and reports as well as information from the internet.

The research methodology comprised site of the study, population size, and data collection instruments and data analysis.

The data has been analyzed and the results presented according to information gathered from fast moving consumer goods firms in Mombasa and its environs.

The analysis was done by use of frequencies, mean and standard deviation. The findings obtained were concluded and recommendations made by the research based on the results.

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CHAPTER ONE : INTRODUCTION

1.1 Background

The last decade has witnessed tremendous changes in the marketing environment. Various forces have posed a lot of challenges to the practices of marketing. The forces include globalization of product markets as well as stiff competition (Capron and Hulland, 1999). The fast-changing global business environment has led to more competition, increased consumer choice, lower prices, lower margins and replacement of tangible assets with information. The global environment transcends political, economic and cultural barriers reaching to every corner of the world.

Price is the value attached to a product by consumers at some point in time. This means what consumers pay for a product or service or exchange something of value, usually money for a bundle of satisfaction (Kotler, 1999). Price is determined by the value that consumers perceive in the product. That value results from their perceptions of the total satisfaction provided by the product. Price of a product is associated with value, quality durability and performance (Stanton, 2000). Price must reflect the total cost of producing and marketing the product. For the consumer, price paid means a sacrifice of purchasing power. For the seller, price is a source of revenue and a determinant of profit. It is the revenue expectation of a sale. (Kotler, 2000), further asserts that price is the marketing mix element that produces revenue others produce cost.

Price is an offer used to enhance the image of a product and to increase sales through discount pricing, or in combination with promotion to build future sales (Cravens et al, 1996). Selecting a pricing strategy is critical because price is the most visible elements of all marketing effort (Kotler, 2000).

As a result of globalization, the business environment changed fast, competition increased due to proliferation of new entrants and consumer goods companies were forced to develop response strategies in order to cope with the changing environment and ensure survival. These response strategies include investment in technology, innovation, new market development, strategic alliances and acquisitions re-engineering and divestment (Njau, 2000). The marketing mix if effectively applied can act as a good response strategy which imparts competitive advantage to firms. Firms often increase their promotion budget in a competitive environment, and invest in new distribution channels (Aaker, 2003). Many companies adopt various pricing strategies in order to stay ahead of competition and to win consumer loyalty. Well due to increased competition and more volatile environment, competitive pricing is becoming more important for business. A good number of companies also use cost plus pricing strategies due to increased levels of inflation and high cost of producing goods. Inspite of the responses discussed above, consumer goods companies continue to operate in an unpredictable environment. The environment keeps changing; consumer tastes and preferences always evolve (Schiffman and Kanuk, 2001).

1.1.1 Concept of pricing strategies

Price is the value attached to a product by consumers at some point in time. This means what consumers pay for a product or service or exchange something of value usually money for a bundle of satisfaction (Kotler, 1999). Kotler (2000) further defines strategy as the game plan for achieving a firm's long – run objectives.

A pricing strategy therefore is a plan that a firm may have for setting prices when it introduces a new product, when it enters a regular product into a new distribution channel or geographical area and when it enters bids on new contract work (Hutt, 1998). A company wants to charge a price that covers its cost of producing, distributing and selling the product including a fair return on investment (Kotler, 2000).

Companies may seek to maximize profits through pricing, other objectives they may include survival, maximizing current revenue, maximizing sales growth, maximizing market share and product leadership (Zeithamz and Bitner 2003).

Most manufacturers know the minimum price one must charge to break even and the maximum price that can be charged based on an estimate of customer demand, costs, demand, competition and profit objectives all factor in to determine the price that can be charged for the product (Kotler, 2004).

According to Kotler (2000) a company do not set a single price but a pricing structure that reflects variations in geographical demand and losses, market segment requirements, purchase timing, order levels, delivery frequency and guarantees.

According to Kotler (2004) the main pricing strategies that companies use are premium pricing, value pricing, penetration pricing, cost – plus pricing, competitive pricing, price skimming, going rate pricing, geographical pricing, segmented pricing, product mix pricing, psychological pricing and discriminatory pricing.

Firms often face situations in which they need to change prices. A price decrease might be brought about by excess plant capacity, declining market share, a desire to dominate the market through lower costs or economical recession (Kotler, 2000). A price increase might be brought about by cost inflation or over demand (Cravens, 1996).

As a result of discounts, allowances and promotional effort, a company rarely realizes the same profit from each unit of a product that it sells. Different pricing strategies may be adapted at different times to adjust for discounts and allowances costs, promotional costs, transport costs, guarantees or even to discourage price competition (Kotler, 2000).

1.1.2 Manufacturers of fast moving consumer goods

Fast moving consumer goods (FMCGs) can be defined as everyday goods and services Kotler (2003), views FMCGs as tangible goods normally consumed in one or a few uses like beer and soap. Another view by Stanton (2000), refers to FMCGs as convenient goods that the consumer is willing to accept any of several substitutes and therefore will buy the one that is most accessible. These goods include groceries, tobacco products, inexpensive candy, drug sundries such as toothpaste and shaving accessories and staple hardware items such as light bulbs and batteries (Stanton, 2000).

In Kenya manufacturers of FMCGs are facing volatile changes as a result of globalization and liberalization. These are over 50 manufacturers of FMCGs in Kenya. There are various challenges faced in the FMCGs sector the world over. In Kenya, the main challenges the FMCGs sector is facing are increased competition due to globalization and liberalization. Other challenges include changing life-styles of consumers, distribution requirements, rising costs of advertising, corporate requirements/ethical concerns and hard economic times, coupled with high prices for products (Ministry for Planning and National Development, 2003). Mwiti (2004) asserts that the latest challenges facing the FMCGs sector in Kenya is counterfeiting of products, among the fake products on sale are dry cell batteries, detergents, drugs, beauty products and assorted consumables.

Many firms have responded to the above challenges by divesting, investing in technology, strategic alliances, innovation and restructuring (Njau, 2000). As a result of fierce competition these firms practice a lot of strategic marketing (Hongo, 2002). Bharat (2003) argues that product superiority plus favourable price-value equation will form the basis of winning initiatives in the coming years. Another potential opportunity for value creation is in the area of distribution and availability. Firms would need to invest in upgraded in store infrastructure, in-shop and market-level presence and therefore improve presence and availability (Saronge, 2004). Another appropriate strategy is to make FMCGS products available in many locations, charge only a small mark-up and advertise heavily to induce trail and build preference (Kotler, 2003). Therefore proper pricing will ensure success now and in the future.

1.2 Statement of the problem

Price is an important aspect of any firm especially firms whose goal is to maximize profits. Each price has a different implication for profits, sales revenue and market share. Some firms may set a low price in order to gain easy market penetration and build a bigger market share. For a better competitive position, the marketer may match his prices with those of competitors (Stanton, 2000). Among the marketing mix variables price can easily be changed or modified to cope with a competitors move or increased cost of production (Kotler, 2000). A company wants to charge a price that covers its cost of producing, distributing and selling the product including a fair return on investment (Kotler, 2000).

Manufactures of FMCGs play an important role in the Kenyan economic development by paying taxes to the government, offering employment and sustaining the advertising industry (Saronge, 2004). FMCGs sector has to a large effect aided in the economic growth of this nation as well as helped to improve the standards of living of Kenyans (Onyango, 2004).

A company's image can be affected by how the company handles its pricing strategy. Other prices may be set to promote sales. Such prices enhance the sales of the entire line rather than yield a profit on the product itself. Some firms may set prices to meet costs and have a good return on investment while others may set prices to satisfy consumers and give them value for their money (Stanton, 2000).

As a result of globalization and Liberalization manufacturers of FMCGs have faced many challenges. Some of the challenges include intensified competition, changing tastes and preferences dwindling product cycles and increased powerful retailers. This means that many FMCGs products fall by the wayside before their maturity (Onyango, 2004). Other challenges include changes in regulation, changing life-styles of consumers, rising costs of advertising and ethical concerns (Mukhweso, 2003). Such challenges have basically eroded the profits of these manufacturers.

Many companies have adopted various pricing strategies in order to stay ahead of competition and win consumers loyalty. Pricing is becoming more important for business due to increased competition, a good number of companies also use cost plus pricing strategies due to increased levels of inflation and high cost of producing goods. Competitive pricing helps the firms to keep at par with competitors while cost plus pricing ensures a return on investment coupled with a certain profit margin. Through use of proper pricing practices firms are able to meet their financial goals in particular and company goals in general.

Many studies done on pricing are based on foreign firms whose economies are more liberal than the Kenya economy (Knittel R. C. and Stango V., 2005) and (Moffat, P. G. and Peters, S. A., 2004). Some other studies focused on other manufacturers and supermarkets (Karemu 1993 and Munyoki, 1997). A study by Mukhweso (2003) focused on factors influencing Tea pricing at the Mombasa Tea Auction. Another study by Njogu (2003) concentrated on price impact of commercial paper announcements for companies quoted at the N.S.E. A more recent study by Ndole (2006) focused on pricing practices of Public Transport Bus Companies in Kenya. There is no study on pricing in relation to fast moving consumer goods in Kenya. The current study therefore intends to focus on pricing strategies adopted by manufacturers of fast moving consumer goods in Mombasa District.

Given the role played by the FMCGs sector in the Kenyan economy in general and in people's lives in particular, there is need to investigate the pricing practices of these manufacturers. It is not known which pricing practices these firms use as some seem to increase their prices rather too often. The proposed study therefore seeks to fill the gap by providing answers to the following research questions.

i. What pricing strategies do firms in the FMCGs sector use?
ii. What factors influence the choice of the pricing strategies used?
iii. Are there any challenges that manufacturers of fast moving consumer goods face in using the various pricing strategies?

1.3 Objectives of the study

i. To determine the extent to which various pricing strategies are used by manufacturers of FMCGs in Kenya.
ii. Establish the extent to which various factors influence the choice of pricing strategies.
iii. To establish the challenges faced by firms in using the various pricing strategies.

1.4 Importance of the study

The results of this study may benefit the following parties:

i. The fast moving consumer goods firms will be in a position to use the research findings and recommendations from the study to develop better pricing policies.
ii. Manufacturers of other products will also benefit from the study as they will know how their counterparts price their goods.

iii. Academicians and scholars - The study will be important as a source of literature review and secondary data. It is hoped that it will stimulate research into other aspects of price.

iv. The study will be beneficial to the government as it will help them to know how manufacturers of FMCGs price their products as well know that the consumer is not exploited.

1.5 Scope of the study

The study will include all manufactures in the fast moving consumer goods industry in Mombasa District. Three manufacturers in Kilifi District have been chosen to be part of the study by virtue of their size and the types of products manufactured. The firms in Kilifi District include Mzuri sweets manufacturers, Pwani Oil products and Milly Fruit Processors. The companies that only package in Mombasa and sell the products have also been excluded from the study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Fast Moving Consumer goods have been in existence since time immemorial (Stengel et al 2003). In this chapter a review of what others have done have been attempted. Fast moving consumer goods are so diverse that just a few areas have been covered for the purpose of this study. The main areas covered in literature review include the concept of pricing, objectives of pricing as well as pricing strategies such as premium pricing, value pricing, penetration pricing, cost-plus pricing and competitive pricing. Other factors covered in the literature review include factors that may influence price such as buyers, economic conditions, costs and government policies. A lot has also been highlighted as far as fast moving consumer goods are concerned.

2.2 Pricing

Price is the value attached to a product by consumers at some point in time. Price refers to what consumers pay for a product or service or exchange something of value usually money for a bundle of satisfaction (Kotler, 1999). Price is determined by the value that consumers perceive in the product. That value results from their perceptions of the total satisfaction provided by the product. Price of a product is associated with value, quality and performance. Price can also apply to material goods which carry a price tag, price for labour, price for tuition and rent (Engel, 1980). For the consumer price paid means a sacrifice of purchasing power. Money spent on a product cannot be available for something else. For the seller price is a source of revenue and a determination of profit. It is revenue expectation for a sale (Engel, 1980). A products price has a strong effect on sales. For some products an increase in price may result to an increase in revenue. Market price affects the price of factors of production. Such factors are rent for land, wages for labour, and interest for capital and profit for enterprise. Therefore price allocates economic resources for optimum production, distribution and consumption of goods (Stanlake, 1994). Price has social and psychological effects on consumers. Some products have concealed d values and benefits which cannot be evaluated rationally. In such cases, price is an indicator of quality and value for many customers (Stanlake, 1994).

In fast moving consumer goods and other products, the product physical attributes such as colour, size, packaging, brand name, material used and label may all influence the price either directly or indirectly (Kotler, 1999). With reference to distribution, such aspects as channels used, location, vehicles and stock can transmit a firm's price (Goodman, 1998). The list price, discounts, allowances, payment period and credit terms can all affect the price of a product. Promotion methods used also has a great effect on the product's price (Kotler 2000). Discounts, allowances, cents-off, refund offers and loss leader prices are all attempts to reduce the price in order to promote sales.

2.3. Objectives of pricing

Every marketing activity, including pricing should be directed towards a goal. To be useful the pricing objective selected by management must be compatible with the overall goals set by the company and the goals of its marketing programme (Stanton et al, 2000)

Profit oriented goals includes achieving a target return or maximizing profit thus to maximize return on investment (Stanton et al 2000).

Sales oriented objectives include sales growth or market share growth. Status quo oriented objectives involves stabilizing prices to meet competition, discourage entrants, and speed exit of marginal firms, maintain price leadership, discourage price-cutting and stabilize market prices and establish market position (Kotler, 2000). A company can also pursue any five major objectives through pricing: survival, maximum current profit, maximum market share, maximum market skimming and product quality leadership.

Njogu (2003) determined that when a firm has knowledge of its demand and cost functions, the companies estimate the demand and costs, associated with alternative prices and chooses the price that produces maximum current profit, cash flow or rate of return on investment.

Mukhweso (2003) found out that, a higher sales volume will lead to lower unit costs and higher long-run profit. They set the lowest price assuming the market is price sensitive and that many companies favour setting high prices to "skim" the market.

2.4. Pricing strategies

Selecting a pricing strategy for FMCGS (Fast Moving Consumer goods) is a critical function for the manufacturers of such products. This is because price is one of the most visible elements of all marketing effort (Mukhweso, 2003). Most manufacturers know the minimum price one must charge to break even and the maximum price that can be charged based on an estimate of customer demand. Costs and demand estimates provide them with the amount of price flexibility available in pricing of the product. Competition and profit objectives will then factor in to determine the price that can be charged for the product. Well, most companies subscribe to one of the following main pricing strategies (Kotler, 2004).

2.4.1 Premium Pricing

Premium pricing is used when the product has one or more unique characteristics. This uniqueness differentiates the product greatly from competition and creates a significant competitive advantage. This strategy demands a high-quality item to merit the high price. Due to the extremely high price, premium pricing generally is a short-term strategy as competitors are attracted to markets with high-margin items. The length of time you can charge customers a premium price depends on the sustainability of the competitive advantage (Runyon, 1982).

A Premium pricing strategy yields the highest product prices of the strategies available. It is best to use premium pricing when there are no substitutes for your product. Substantial barriers to enter the market exist and the potential customers are price insensitive because they value the benefits provided by the product. Well, one must remember that premium pricing cannot be used when there is competition. Competitors would undercut the price, leaving one with ineffective pricing strategy and poor product sales.

2.4.2 Value Pricing

Price is based on the value of the product. Value priced products are priced a bit lower than premium products because they face moderate market competition. A value pricing strategy is used best when only a few competitors exist, barriers to entering the market are relatively high and potential customers value the benefits provided by the product (Stanton, 1987). A business should select a value pricing strategy when its product has a competitive advantage that is unsustainable because of the likelihood that competitors will enter the market. Value priced products attract many competitors because the price for products is high in relation to the barriers to entering the market.

2.4.3 Penetration pricing

Penetration pricing is used when a company launches a product in a market with several competitors. Initially, the price for the product is set low to grow product sales and increase market share. Doing this attracts new customers more quickly and easily than other strategies. Once market share is gained, price is increased. This strategy is effective when potential customers are price sensitive and economies of scale can be exploited. Although this strategy might seem to work for small, value-added enterprises, few will have the infrastructure and size to operate at economies of scale (Kotler, 2004).

The objective to market penetration is to gain market share. The product needs to be priced lower than the market leader to attract customers. "Penetration" involves setting a low initial price to enter the market quickly and deeply to attract a large number of buyers and win a large market share. Several conditions favour setting a low price. The market must be highly price sensitive so that a low price produces more market growth. Production and distribution costs must fall as sales volume increases; the low price should serve as a barrier to entry for competitors (Hutt and Speh, 1998). This pricing strategy can help establish brand loyalty and keep new competition out of the market place. But if the price is set too low, customers may take view that the product is of low quality and therefore brand image can suffer (Kotler, 2003).

2.4.4 Cost/Plus pricing

One determines the total costs and adds a margin of profit. Cost/plus pricing is used when a company has a two-tiered focus; costs and return on sales. Companies implement cost/plus pricing when market share and profits are the objectives. To establish a price using a cost - plus strategy, the company needs to determine its break-even price by calculating all costs involved in the production and distribution of the product. The mark-up must be large enough to provide a sufficient profit, but should not exceed what customers are willing to pay (Kotler, 1999).

2.4.4.1 Marketing pricing

Marketing pricing is an orientation of cost-plus pricing in that mark-up are calculated as a percentage of the selling price rather than as a percentage of cost.

$$\text{Selling Price} = \frac{\text{average unit cost}}{1 - \text{Desired mark-up \%}}$$

2.4.5 Break-even pricing

Break even pricing determine the level of sales needed to cover all of the relevant fixed and variable costs. Except for non-profit organizations, break-even prices typically set a pricing factor (Kotler, 2000).

BEP = Fixed Cost / (Price per unit - Variable cost per unit)

2.4.6 Competitive Pricing

This is a basic pricing focused on cost reduction. Costs of production, marketing and distribution are kept to a minimum. To determine a price using a competitive pricing strategy, a firm can simply identify and record competitor's prices and price its product accordingly - A little more or less depending on differentiation. Competitive pricing maintains status quo in product categories that use this strategy (Kotler, 1999).

2.4.7 Price skimming

Price skimming means charging a high price to maximize profit on each item sold. "Skimming" refers to setting initially high prices and slowly lowering them over time to maximize profits. As initial sales slow down and competitors threaten to introduce new products, the price is lowered just enough to make it worthwhile for the next segment to buy (Hutt and Speh, 1998). Ability to skim depends on having either a technological advantage or advantage based on brand image (Runyon, 1982).

2.4.8 Going rate pricing

For many small businesses, accepting the current market pricing structure is all they are able to do. Such firms have an element of being price takers. They must sell their goods and services at a price the consumers are used to paying. For new entrants to the market, the price charged has to be below that of the market leader (Kotler, 2003).

2.4.9 Discount and allowances pricing

A company can adjust its basic price to reward customers for certain responses such as early payment of bills, volume purchases and off-season buying. These price adjustments are called discounts and allowances (Kotler 2004). A discount is a straight reduction in price on purchases during a stated period (Stanton, 1997). Allowance refers to promotional money paid by manufacturers to retailers in return for an agreement to feature the manufacturer's products in some way (Kotler, 2004). Discounts and allowances may take many forms. A cash discount refers to a price reduction to buyers who pay their bills promptly. A quantity discount is a price reduction to buyers who buy large volumes. A trade discount is offered to the seller to trade-channel members who perform certain functions such as selling, storing and record keeping. A seasonal discount is a price reduction to buyers who buy merchandise or services out of season (Kotler, 2004).

2.4.10 Geographical pricing

According to Kibera (1998) geographical pricing involves reductions for transportation costs or other costs associated with the physical distance between the buyer and the seller. The main forms of geographical pricing are FOB (Free on board) pricing where the goods are placed *Free on Board*. At that point the title and responsibility pass to the customer, who pays the freight from the factory to the destination (Kotler, 2004). The second form of geographical pricing is uniform-delivered pricing. It is the opposite of FOB (Free on Board) pricing. In this case the company charges the same price plus fright to all customers, regardless of their location. The freight charge is set at the average freight cost. The third form of geographical pricing is zone pricing. Zone pricing falls between FOB pricing and Uniform-delivered pricing. The company sets up two or more zones. All customers within a given zone pay a single total price. The more distant the zone the higher the price (Kibera, 1998).

2.4.11 Promotional pricing

Promotional pricing refers to temporarily pricing products below the list price, and sometimes even below cost, to increase short-run sales.

Promotional pricing can take several forms. Supermarket may price a few products as *loss leaders* to attract customers to the store in the hope that they will buy other items at normal mark-ups (Stanton, 1987).

2.4.12 Segmented Pricing

In this case the product is sold at two or more prices where the difference in prices is not based on differences in costs. One form of segmented pricing is customer-segment pricing where different customers pay different prices for the same product. Another form of segmented pricing is product-form pricing. Different versions of the product are priced differently but not according to differences in their costs. The third form of segmented pricing is location pricing where a company charges different prices for different locations, even though the cost of offering each location is the same. For example theatres vary their seat prices because of audience preferences for certain locations (Kotler, 2004).

2.4.13 Product Mix Pricing

According to Kotler (2004), product mix refers to the set of all product lines and items that a particular seller offers for sale. A firm may set prices that maximizes the profits on the total product mix. Pricing such products is difficult because they have related demand and costs and face different degrees of competition. There are five product-mix pricing situations (Kotler 2004). In product Line pricing, management must decide on the price steps to set between the various products in a line. The price steps should take into account differences between the products in the line, customer evaluations of their different features and competitors' prices. In optional product pricing, the retailer offers to sell optional or accessory products along with their main product. For example refrigerators come with optional ice makers. Companies that make products that must be used along with a main product are using captive-product pricing. Examples of captive products are razor blades and cameras. Manufacturers may set a price for the by-products in order to reduce the price of the main product to make it more competitive. In production processes for meat, petroleum products, chemicals and other products, there are often by-products. The price of the by-product can affect the profit of the main product.

2.4.14 Product Bundle pricing

In this case, sellers often combine several of their products and offer the bundle at a reduced price. For example theatres and sports teams sell off-season tickets at less than the cost of single tickets (Bassignton, 1997).

2.4.15 Discriminatory pricing

Price discrimination means to charge different mark-ups over cost to different customers. Price discrimination is illegal because it lessens competition. However it is allowed when it is made in response to changes in the market place. For example if the demand for the product shifts. Price discrimination may also be offered to meet an equally low price of a competitor (Stanlake, 1994). For price discrimination to be profiTable the customers should be separated geographically the customer demands should be of different magnitudes and remarketing by one customer to another should be impossible (Stanlake, 1994).

2.4.16 Psychological Pricing

In this case price causes psychological reaction on the part of consumers. Therefore high prices may indicate high quality or a prestigious product, while low prices may mean real bargains or even inferior quality (Kibera, 1998).

Psychological pricing is designed to encourage purchases that are based on emotional rather than on rational responses. It is used most frequently when setting prices at the retail level (Kotler, 2004).

One form of psychological pricing is called odd pricing. In this case the end price is an odd number. Many marketers believe that consumers react to such price distinctions (Kibera, 1998).

2.5 Factors that may influence price

2.5.1 Buyers

Effective buyers oriented pricing involves understanding how much value consumers place on the benefits they receive from the product and setting a price that fits their value. Thus marketers must understand the consumer's reasons for buying the product and set price according to consumer perception of the product value (Kotler, 1999).

2.5.2 Competitors price and offers

Competitors provide a major challenge for any marketer in the price setting strategy. The kind of strategy adopted will determine the kind of competition a firm will face. A low-price, low margin strategy may stop competitors or drive them out of market, while a high price high margin strategy may attract competitors. The marketer must know competitors prices (Kotler, 2000).

2.5.3 Economic conditions

Economic conditions are examples of external environment that affects pricing strategy. Inflation, recession, boom and interest rates all affect pricing decisions because they affect both the costs of producing a product and consumer perceptions of the product's price and value (Salemi, 1998).

2.5.4 Government policies

There are some agricultural products such as maize, cotton and pyrethrum where the government sets prices (Munyoki, 1997). The government also may impose taxation on some products in order to generate revenue and so result in seller charging a high price for their products.

2.5.5 Demand and supply

Where the demand and supply curves meet we get a market price known as the equilibrium price. The higher the price the lower the quantity demanded. Many suppliers interpret the product's price as indicating the level of the firm's profit from the product (Salemi, 1987).

2.5.6 Costs

The producer must consider costs in order to have a reasonable return on investment. The price depends upon the cost of the product. The producers ascertain the total cost and then add a profit margin to arrive at the selling price. High costs of production may lead to low profit margins.

2.5.7 Company objectives

The price policy may be guided by the company's goals and objectives. For example a goal to maximize market share may lead to a low price. A goal to easily penetrate the market may also lead to a low initial price. A goal to recover as much costs as possible may force the firm to set a high price (Kotler, 1999).

2.6 Price and Market demand

Whereas costs set the lower limit of prices the market demand sets the upper limit. There is an increased relationship between price and demand and so in setting prices, the marketer must be aware of how it will affect the price. The pricing freedom varies with the different types of markets, of which the economists recognize four major ones. There are many buyers and sellers and no single buyer or seller has much effect on the price. There are no barriers to entry in pure competition and so markets must be careful not to raise prices or profits so much as not to attract new entrants (Stigler, 1987). In purely competitive Markets, Marketing research, product development, pricing and advertising and sales promotion play little or no role and so sellers in these markets do not spend much time in pricing strategy. The market forces of demand and supply determine prices and each individual firm is a price taker rather than a price maker (Donnet, 1992). Pure competition is not common in developing countries where the government is not only the reference or regulator of the economy, but an active player. With the ongoing structural adjustment leading to the liberalization of the economy, in future, Kenyan economy might move towards this pure competition market system.

A monopolistic competitive market is characterized by many buyers and sellers who charge different prices because sellers can differentiate their products. Sellers try to develop differentiated offers for different customer segments and in addition to prices, freely use advertising, branding and personal selling to set their offers apart (Kotler and Armstrong 1993). An example of this competition in Kenya is the textile industry.

Oligopolistic market consists of a few sellers who are highly sensitive to each other's pricing strategy. Barriers to entry are very high and this is why there are few sellers. Since no firm is sure of what the others will do if it raises or lowers price, the firms tend to unite together and act as if they were a single monopolistic, a behaviour Dunnet (1992) describes as a joint profit-maximizing. A firm that charges higher prices than its competitors risks losing customers to competitors (Stanlake, 1994). Since high prices might attract new entrants, the firm may choose to forego some short run super normal profits and, instead charge high prices as a way of deterring new entrants. This policy is called limit pricing since the prices are set just low enough to discourage other firms from entering the markets.

The last is of a pure monopoly market where there is only one seller who may be a government monopoly, a private regulated monopoly, or a private non-regulated monopoly. Pricing strategies in each case are different. For instance government monopoly may charge a lower price than cost if the service is essential or might charge very highly to discourage competition. Private regulated monopolies are free to set prices, but under government regulations (Stanlake, 1994). The persistence of monopoly (or oligopoly) depends upon the existence of barriers to entry of new rivals and this include legal barriers such as Franchises (Certificate to some people to produce a good or service) and patents (exclusive right to process a product).

2.7 Empirical review on pricing

Studies by Knittel R.C. and Stango V. (2005) investigated how incompatibility affect prices. Evidence from ATMs. They examined the link between incompatibility and prices using data from Automated Teller Machine (ATM) markets. Their sample covered a period during which higher ATM fees reduced compatibility between ATM cards (which are bundled with deposit accounts) and other banks' ATMs. Their research found out that incompatibility makes the relationship between deposit account pricing and competitors' ATMs more negative. The overall effect of incomparability appeared to be higher on deposit account prices.

Goliath (2004) investigated empirically the determinants of retailers pricing decisions. Their study classified retailers pricing strategies based on four underlying dimensions: Price consistency, Price-promotion intensity, Price-promotion coordination and relative brand price. These four pricing dimensions are statistically related to: competitor price and deal frequency, storability and necessity, chain positioning and size, store size and assortment, Brand factors and Customer factors.

The results established that competitor factors explain the most variance in retailer pricing strategy.

Studies by Moffatt, P.G. and Peters, S.A. (2004) investigated the way in which prices of prostitutes' services are determined. The data used in the analysis are extracted from an internet site, each observation being based on a report submitted by a client. The factors affecting price are identified in a regression framework and combined with other information to provide estimates of the earnings. Comparison of these earnings' estimates with data on earnings from alternative employment allowed the researchers to estimate the compensating wage differential. The results shown that prostitutes' earnings are positively related to earnings from alternative employment.

Chintagunta P. Dube, J.P. and Singh, V. (2002) investigated the impact of price discrimination by a large Chicago Supermarket chain. Using a structural econometric approach, they were able to measure the impact on prices, profits and consumer welfare from shifting from a uniform chain-level pricing policy to a regionally-segmented zone-pricing policy. The results seemed to provide reasonable estimates of the underlying pricing decisions in the chain. In assessing the impact of zone-pricing, they found that benefits (to the store) and costs (to the consumer) of price discrimination vary by product category. Therefore certain products are better-suited to zone-pricing than others.

Roehner, B. (1987) investigated the correlation between wheat price fluctuations on different markets with respect to the distance between those markets. The results of their study show that the decrease in the correlation is exponential and is governed by a characteristic distance which is called the correlation length for wheat prices. This is a measure of the level of market integration in a given area. They compared the magnitude of the correlation length for different cereals; wheat, rice and oats. Consequently the price-correlation length is primarily the result of economic factors.

Studies by Levich, R.M. (1985) surveyed empirical evidence on exchange rate behaviour, market efficiency and related topics. Their studies were fairly successful in constructing models to explain cross-sectional exchange rate differences and to explain time series exchange rate developments over the medium-run and long-run. The results demonstrated that unanticipated exchange rate changes are significantly correlated with "news" concerning fundamental macro economic variables. They found out that market efficiency studies remain difficult to formulae because of small samples and unobserved variables.

2.8 Pricing Challenges

Manufacturers of fast moving consumer goods face many challenges in pricing the products. Stiff competition from related products is one of the biggest challenges facing these manufacturers (Aaker, 1998). When a firm introduces a new product it may seem to easily penetrate the market. However the sales growth of such products is hindered by competitors introducing similar products. A firm may not necessarily recover costs by pricing according to competition (Cravens, 2000). Many competitors introduce counterfeit products. Stanton (2000) has cited high costs than anticipated and poor timing in introduction as the key pricing challenges. According to Kotler (1999) costs-plus pricing method can be used to help a firm recover costs and gain a margin of profit.

According to Stanton (1985) inadequate market analysis is another challenge that face manufacturers when pricing products. Most of the manufacturers hardly anticipate consumer's reaction to price-changes. Consumers may reject a price when they doubt whether it gives them value for their money. Government requirement is another challenge that manufacturers face when pricing products. Government taxes increases the cost of manufacturing and most producers pass such costs to consumers in form of increased prices (Kalanke, 1994).

In pricing products, manufacturers have to consider the issue of ethical and social concerns. They must put social responsibility in their pricing practices. The manufacturers should not gain supernormal profits by charging high prices to consumers (Hutt and Speh, 1998).

According to Stanton (2000) consumer buying behaviour is a major pricing challenge facing the manufacturers of fast moving consumer goods. Consumers of convenience goods shops around to get better service and lower price. The modern consumer is sophisticated and knows the prices of competing products. According to Kalanke (1994), price discrimination is another challenge faced by manufacturers. Due to differences in transport costs in different geographical areas, manufacturers may practice price discrimination. Price discrimination can be a disadvantage to some consumers whereas it may be an advantage to others. Changing life-styles of consumers is a big challenge that faces manufacturers when pricing products. The consumers may go for other types of products that offer better value (Kalanke, 1994). They may buy other products due to changes in attitude or lifestyles.

Hard economic times are another big pricing challenge. The rising cost of living has eroded the purchasing power of consumers (Salemi, 1998). Rising cost of living has resulted to high costs of producing and marketing the products and consequently high prices for such products. Increased powerful retailers are another pricing challenge. The retailers buy in bulk and they are interested in high profit margins (Stengel et al 2003). Such retailers demand high discounts as they are able to buy in bulk and pay promptly. The high discount reduces the profits of manufacturers.

2.9 Fast moving consumer goods

Fast moving consumer goods can be defined as everyday goods and services. According to Engdegard (2004), Fast Moving consumer goods, are those goods that are price-sensitive mass-use goods that are consumable, packaged and branded. Kotler (2003) refers to fast moving consumer goods as non-durable goods. Kotler (2003) views FMCGs as tangible goods normally consumed in one or a few uses, like beer and soap.

According to Stanton (1985), FMCGs are referred to as consumer goods. These are goods that the consumer is willing to accept any of several substitutes and thus will buy the one that is most accessible. These goods include groceries, tobacco products, inexpensive candy, drug sundries such as toothpaste and staple hardware items such as light bulbs and batteries.

FMCGs typically have a low unit price, are not bulky and are not greatly affected by Fad and Fashion (Stanton, 1985). Since FMCGs are consumed quickly and purchased frequently, the appropriate strategy is to make them available in many locations, charge only a small mark-up and advertise heavily to induce trial and build preference (Kotler, 2003). The driving force in FMCGs is immediate availability of goods (Stengel et al, 2003).

At the Macro-level, the evolution of the FMCGs industry would continue to be driven by a number of factors. These include economic growth which would impact large proportions of the population thus leading to more money in the hands of the consumer. Changes in demographic composition of the population and thus the market would also continue to impact the FMCGs industry. According to Bharat (2003) at the firm level, companies that are able to spot trends early and those that are committed to continuous innovation and those that endeavour to delight the consumer by meeting her changing needs will lead and prosper in the future.

CHAPTER THREE : RESEARCH METHODOLOGY

3.1 Research Design

This was descriptive survey which investigated the extent to which manufacturers of Fast Moving Consumer goods in Kenya use pricing strategies. According to Donald and Pamela (1998), a study concerned with finding out who, what, which and how of a phenomenon is a descriptive design. This study was mapped out on a similar concern.

3.2 The Population of study

The population of interest in this study consisted of all manufacturers of FMCGs in Mombasa District. There were 56 manufacturers of FMCGs in Mombasa District and its environs. Due to the size of the population, a census study was used. According to Kenya Association of Manufacturers (2005), small companies are classified as employing between 0 to 500 employees. Medium companies employing 500 to 3000 employees and large companies more than 3000 employees. This study adopted the Kenya association of manufacturers informal classification of company size. The study focused on all sizes of companies.

3.3 Data Collection method

The primary data was collected using a semi-structured questionnaire. The questionnaire had been divided into four (4) parts: Part I contained the respondents and companies profile; Part II contained questions aimed at determining the extent to which various pricing strategies are used by manufacturers of FMCGs in Kenya; Part III contained questions to establish the extent to which various factors influence the choice of pricing strategies and Part IV contained questions to establish the challenges faced by firms in using the various pricing strategies.

The respondents were persons that make strategic decisions in the Fast moving consumer goods industry. One person per organization was required to fill the questionnaires, preferably the General Manager, Marketing Manager, Operations Manager or equivalent. Drop and pick method was used to administer the questionnaire. Follow-up was done via personal visits, telephones calls or e-mail to facilitate responses and enhance response rate. In order to operationalise the pricing strategies used by the manufacturers of FMCGs, the variables are shown in appendix II.

3.4 Data Analysis

Descriptive statistics was used to analyze data. Percentages were used to analyze data in Part I, while Parts II, III and IV, was analyzed using mean scores, standard deviation and frequencies.

CHAPTER FOUR : DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter contains the findings together with their possible interpretation. In the chapter, data on general information, data on the extent to which firms practice various pricing strategies, data on the factors influencing the choice of the pricing strategies that a firm uses and data on challenges experienced by firms in using the various pricing strategies is analyzed. A total of 56 questionnaires were distributed to the respondents: 42 of them were completed and returned, 14 did not respond.

This gave a response rate of 75% which the researcher deemed adequate and sufficient for the study, for the purpose of data analysis. This is as compared to a response rate of 60.9% (Ndole 2006).

The returned questionnaires were edited and coded. Frequencies and percentages were used to analyze data on general information. Mean scores and standard deviations were used to determine the extent to which firms practice various pricing strategies and the factors influencing the choice of pricing strategies. On a five point likert scale ranging from "very large extent" (5) to "no extent (1). The scores to "no extent" and to a "small extent" represented a pricing strategy variable and factors considered variables practiced to "a little extent" (LE). This was equivalent to 1 to 2.5 on the continuous likert scale (1<LE<2.5)

The scores of "to some extent" represented a pricing strategy and factors considered variable practiced to a "moderate extent" (ME). This was equivalent to 2.6 to 3.5 on the likert scale (2.6<ME<3.5). The score of "to a large extent" and "to a very large extent" represented a pricing strategy and factors considered variables practiced to a great extent (GE). This was equivalent to a (3.6 to 5.0) on the likert scale (3.6 <GE<5.0).

4.2 Analysis of the General Information.

The information considered in this part of the study include the responsibilities of the respondents, the ownership of the company, the number of years the manufacturers have been in business, the size of the company in terms of number of outlets, product destinations, product category and the size of the company in terms of the number of employees.

The results have been analyzed using various Tables that follow:

4.2.1 Responsibilities of Respondents

In data collection, respondents were asked to indicate their title in the firm. The results are indicated in Table 1:

Table 1: Responsibilities of Employees

Title of Employee	Frequency	Percentage
General Managers	16	38
Marketing Managers	20	48
Public Relations Officers	6	14
Total	**42**	**100**

Source: Response Data 2009.

The results indicate that majority of the respondents (48%) were marketing managers. General managers comprised 38 percent and public relations officers 14 percent.

4.2.2 Ownership Distribution

The respondents were asked to indicate whether their firms were foreign owned, locally owned or a hybrid of local and foreign. The results are indicated in Table 2.

Table 2: Ownership Distribution

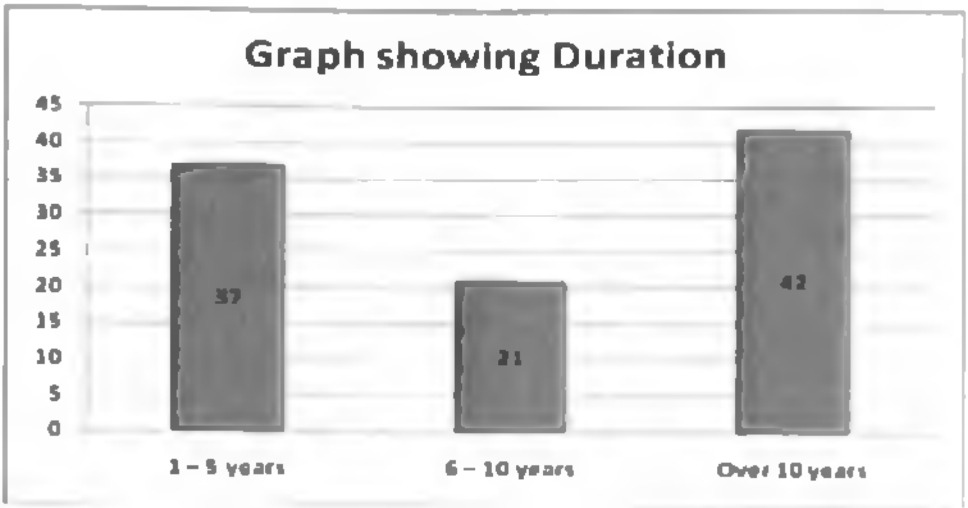
Form of Ownership	Frequency	Percentage
Foreign	3	7
Local	39	93
Total	**42**	**100**

Of the 42 companies that responded there were 3 foreign companies (7 percent) and 38 locally owned companies (93 percent) there was no mixed or government ownership.

4.2.3 Duration of Operation

Responses on the number of years that the manufacturers have been in operation are found in Figure 1:

Figure 1: Duration of Operation



Of the 38 local companies which responded 14 companies have been in operation for between 1 year to 5 years (37%). 8 companies had operated for between 6 years and 10 years (21%) and 16 companies had operated for over 10 years (42%).

The number of years the company has been in operation in Kenya gives us an indication of the experience the company has in manufacturing industry. The results show that majority of the companies are old companies that have long experiences in product manufacturing and are experienced in pricing strategies.

4.2.4 Distribution of Branches Owned

Responses on branches owned by manufacturers are shown on Table 3.

Table 3: Distribution of Number of Branches.

Number of Branches	**Frequency**	**Percent**
Less than 5 branches	30	71
6 – 10 Branches	7	17
Over 10 Branches	5	12
Total	**42**	**100**

From the findings 71% of the respondents had less than 5 branches, 16 of the respondents had between 6 and 10 branches and 13 of the respondents had over 10 branches.

4.2.5 Destination of the Products

In the data collection respondents were asked to indicate all the destination their products went to. The destinations of their products indicate how the firm has moved into various markets and segments over the years.

The results per destination of products are shown in Table 4.

Table 4: Destination of products.

Destination	Frequency	Percent
Local	35	83
COMESA	5	12
Other parts of the World	2	5
Total	**42**	**100**

From the findings 83% of the respondents indicated that their market destination was local, 12% indicated that they sold their products in COMESA and 5% sell their products in other parts of the world.

4.2.6 Category of Products Company Deals with

Respondents were asked to indicate the category of products they deal with selecting from a given list. The results are shown in Table 5.

Table 5: Category of Products Dealt with

Category of Products dealt with	Frequency	Percentage
Beverages	12	29
Confectionery	11	26
Foods	13	31
Packaging	2	5
Hygiene	1	2
Stationery	1	2
Others	2	2
Total	**42**	**100**

The result indicate that majority of the firms deal in Foods (31%) followed by beverages (29%) 26% of those who responded deal in confectionery while 5% of them deal in packaging while hygiene and stationery had 2% each.

4.2.7 Number of Employees

In data collection, respondents were asked to indicate the number of employees their firm employs. The results are indicated in Table 6.

Table 6: Number of Employees

Number of Employees	Frequency	Percentage
0 – 500	26	62
501 – 3000	12	28
3001 and above	4	10
Total	**42**	**100**

The results show that 62% of the respondents employ between 0-500 employees while 28% of the respondents employ between 501 to 3,000 employees and only 10% of the respondents employ over 3001 employees. According to Kenya association of manufacturers (2005) small companies are classified as employing between 0 to 500 employees and large companies more than 3,000 employees. From the results most companies in our study are small companies.

4.3 Extent of Practice of Pricing Strategies

The first objective of the study was to determine the extent to which firms in the FMCGS practice pricing strategies. Respondents were given a questionnaire outlining variables of pricing strategies and asked to indicate the extent to which the variables apply to their companies pricing strategies. Respondents were asked to rate their extent of practice of pricing strategies in a five-point likert scale ranging from very large extent (5) to no extent (1). The findings on the extent of practice of pricing strategies are presented in Table 7. The analysis is done by the use of mean score and standard deviation. A mean score of less than 1.49 was interpreted to mean that the pricing strategies are practiced to no extent (n); a mean score of between 1.5 and 2.49 was interpreted to mean that the pricing strategies are practiced to a small extent (s); a mean score of between 2.5 and 3.49 was interpreted to mean that the pricing strategies are practiced to a moderate extent (m); a mean score of between 3.5 and 4.49 was interpreted to mean that the pricing strategies are practiced to a large extent (L); and a mean score of above 4.5 was interpreted to mean that the pricing strategies are practiced to a very large extent (v). A standard deviation of less than 1 meant that there were no significant deviation in responses while that of greater than 1 mean that deviation in responses were significant:

Table 7: Extent of use of Pricing Strategies.

No.	Aspect	Mean	Standard Deviation (SD)
1.	Ensure that pricing policy used blends well with product value.	4.6'	0.90
2.	Ensure that the price of a product is in line with the market price.	4.8'	0.94
3.	Setting initial high prices to maximize profit on each item sold.	3.24^{M}	1.65
4.	Seek customer perception when pricing new products.	2.45'	1.76
5.	Provide a range of differently price quality levels of products.	1.45^{n}	1.65
6.	Attach importance to the distinctiveness of the company brand in its pricing	3.90^{L}	0.98
7.	Normally unbundle some products to offer what customers can afford.	1.40^{n}	1.61
8.	Price some products according to customers perception of value.	1.2^{n}	0.92
9.	Price some products below cost of production to attract customers in certain seasons.	1.14^{n}	1.45
10.	Add a percentage mark-up on price in order to remain profitable.	3.65	0.97
11.	Sets prices according to the firm's objectives	3.15^{m}	0.94
12.	Normally change prices in response to changes in prices of competitors' products.	2.54^{m}	1.67
13.	Consider other marketing mix variables when pricing products.	3.10^{m}	0.93
14.	Give discounts and allowances to customers who buy in bulk and pay promptly.	2.85^{m}	0.96

15.	Sell on credit in order to promote sales	4.55'	1.24
16.	Optional product features have a major impact on the main price.	2.48'	1.84
17.	In our firm prices are set to maintain market share.	1.42'	1.67
18.	The price of by-products have a major influence on the main price.	3.04"	1.43
19.	In our firm we prefer odd number pricing e.g. 999/=	2.40'	1.45
	Overall mean/standard deviation	**2.81**	**1.31**

4.3.1 Pricing Strategies Practiced by Manufacturers of FMCGS to a very Large Extent

In the responses, three of the aspects indicated that the pricing practices applied to a very large extent. The three aspects are "ensure that pricing policy blends well with product value, ensure that the price of the product is in line with the market price and sell on credit in order to promote sales". Each had a mean of above 4.5 indicating those pricing practices applied to a very large extent.

4.3.2 Pricing Strategies Practiced by Manufacturers of FMCGS to a Large Extent.

Only two of the aspects applied to a large extent that is "attach importance to the distinctiveness of the company brand in its pricing" and "add a percentage mark-up on price in order to remain profiTable". They had a mean score of 3.90 and 3.65 respectively.

4.3.3 Pricing Strategies Practiced by Manufacturers of FMCGS to a Moderate Extent

Six of the responses applied to a moderate extent each with a mean score of between 2.5 and 3.49. The aspects were "setting high initial prices to maximize profit on each item sold, sets prices according to the firms objectives, normally change prices in response to changes in prices of competitors products, consider other marketing mix variables when pricing products, give discounts and allowances to customers who buy in bulk and pay promptly-and the price of by-products have a major influence on the main price".

4.3.4 Pricing Strategies Practiced Manufacturers FMCGS to a Small Extent

Three aspects that is "optional product features have a major impact on the main price, and in our firm we prefer odd number pricing e.g. 999 and seek customer perception when pricing new products" were practiced to a small extent with a mean score of 2.48, 2.40 and 2.45 respectively.

4.3.5 Pricing Strategies not Practiced by Manufacturers of FMCGS

Five aspects were practiced to no extent each having a mean score of less than 1.49. They were "provide a range of differently price quality levels of products, price some products according to customer perception of value, normally unbundle products to offer what customers can afford, price some products below cost of production to attract customers in certain seasons and in our firm prices are set to maintain market share".

4.3.6 The Extent to which Pricing Strategies Vary Among Manufacturers of FMCGS

An overall standard deviation of 1.3 means that there was significant deviation in extent of use of pricing practices among the respondents.

4.4 Extent to which Some Factors Influence the Choice of Pricing Strategies

The research sought to determine the extent to which some factors influence the choice of the pricing strategies that firm's in the FMCGs use. Respondents were given a questionnaire outlining factors that influence the choice of pricing strategies and asked to indicate the extent to which the variables apply to their firm's choice of pricing strategies. To measure the extent, a five point likert scale was used (5 = Factors that influence the choice of pricing strategies to a very large extent and 1=to no extent).

The findings on the extent to which some factors influence the choice of pricing strategies are presented in Table 8. The analysis is done by the use of mean score and standard deviation.

Table 8: Extent to which some factors influence the choice of pricing strategies:

No.	Issue		
20.	Competitive policies and strategies	4.3^{I}	1.22
21.	Market and demand	3.2^{iii}	1.80
22.	Costs of production, marketing and other costs	4.6^{i}	0.92
23.	Government policies	3.02^{m}	1.41
24.	Company Objectives	4.62^{v}	0.98
25.	Number of products in the line	2.41^{s}	0.94
26.	Buyer tastes and preferences	2.01^{i}	1.48
27.	Distributors and other dealer requirements	2.48^{i}	1.36
28.	Product distinctiveness	3.42^{m}	1.45
29.	The type of market segment	4.24^{L}	1.61
30.	Customer location	2.14^{n}	1.32
31.	Product quality	4.46^{i}	1.51
32.	Marketing mix	2.46^{m}	1.44
33.	Economic conditions such as inflation and recession	2.34^{i}	1.02
34.	Size of the product	3.84^{i}	1.33
35.	Rent, salary and bills paid monthly	1.21^{n}	0.94
	Overall Mean/Standard deviation	**3.17**	**1.30**

4.4.1 Factors that Influence Manufacturers of FMCGS Choice of Pricing Strategies to a very Extent

In the responses three of the aspects indicated that three factors influence the choice of pricing strategies to a very large extent. The aspects are "cost of production, marketing and other costs, company objectives, and product quality". Each had a mean score of above 4.5 indicating that the choice of pricing strategies applied to a very large extent

4.4.2 Factors that Influence Manufacturers of FMCGS Choice of Pricing Strategies to a Large Extent

In yet another three responses the respondents indicated that the factors influence the choice of pricing strategies to a large extent. They include "competitive policies and strategies, the type of market segment and size of the product". They all had a mean score of between 3.5 and 4.49 respectively.

4.4.3 Factors that Influence Manufacturers of FMCGS Choice of Pricing Strategies to a Moderate Extent

Four of responses indicated that the factors influence pricing strategies to a moderate extent: they include "market and demand, product distinctiveness, government policies and marketing mix".

4.4.4 Factors that Influence Manufacturers of FMCGS Choice of Pricing Strategies to a Small Extent

Another four responses indicated that the factors influence choice of pricing strategies to a small extent. They include "number of products in the line, buyer tastes and preferences, distributors and other dealer requirements and economic conditions such as inflation and recession". They all had a mean score of between 1.5 and 2.49 meaning that the choice of pricing strategies applied to a small extent.

4.4.5 Factors that do not Influence Choice of Pricing Strategies of Manufacturers of FMCGS

Only two respondents indicated that the factors influencing the choice of pricing strategies applied to no extent. They include "customer location and rent, salary and bills paid monthly". They had a mean score of 2.14 and 1.21 respectively.

4.4.6 Extent to which Factors Influencing the Choice of Pricing Strategies Vary Among Manufacturers of FMCGS

An overall standard deviation of 1.30 means that there was significant deviation in the extent to which some factors influence the choice of pricing strategies among the respondents.

4.5 Challenges Experienced by Firms in Using the Various Pricing Strategies

The researcher sought to determine the challenges experienced by the firms in using the various pricing strategies. The respondents were supposed to tick as many challenges as apply to their FMCGs firm. The results are presented in Table 9.

Table 9: Challenges Experienced in using Pricing Strategies:

	Frequency
36. Face many challenges such as stiff competition when pricing products.	36
37. The firm has experienced high costs than anticipated as a key pricing challenge.	36
38. Poor timing in product introduction has been a key challenge the firm has faced.	4
39. In the past the firm has been unable to anticipate consumers reactions to price changes	10
40. A major challenge to the firm is that retailers buy in bulk and are interested in high profit margins.	15
41. High discounts reduces profits of manufacturers	10
42. One of the biggest problems the firm has been experiencing is how to deal with counterfeit products from other manufacturers	20
43. High taxes charged by legal authorities have been a major challenge facing the firm.	30
44 Price discrimination has discouraged many consumers from using our products	12

From Table 10 above, it was found that the respondents find some challenges in using the various pricing strategies. The biggest challenge faced was stiff competition and high costs than anticipated as in both cases 86% of the respondents experienced the challenge. The lowest challenge was poor timing in product introduction which was experienced by only 11% of the respondents.

CHAPTER FIVE: DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This study aimed at determining the extent to which various pricing strategies are used by manufacturers of FMCGs in Kenya, to establish factors that determine the choice of pricing strategies and establish challenges manufacturers of FMCGs face in using the various pricing strategies.

This chapter presents the discussion, conclusion and recommendations based on the findings of the study. The findings have been discussed in accordance with the objectives of the study; conclusions have been drawn from the study and recommendations arising from the study given.

5.2 Discussion

The objectives of this study are to determine the extent to which various pricing strategies are used by manufacturers of FMCGs in Kenya, to establish the extent to which various factors influence the choice of pricing strategies and to establish the challenges faced by firm's in using the various pricing strategies.

In achieving the first objectives, the findings of this study showed that majority of the FMCGs firms adopted the various pricing strategies. They used some of the pricing strategies to a large extent and others to a moderate extent: Responding to the questions related to objective one, the respondents showed a significant variation, thus lack of general agreement as reflected by a standard deviation greater than 1. According to Kotler (1999) price refers to what consumers pay for a product or service or exchange something of value usually money for a bundle of satisfaction. The study showed that firms in FMCGs sector practice product value pricing and promotional pricing to a very large extent. The firm's objectives and other marketing mix variables are considered to a moderate extent when setting prices.

Arguably, competition is useful for a healthy market place. According to Kotler (1999), competitive pricing maintains status quo in product categories that use this strategy. The firms in the FMCGs sector practice competitive pricing strategy to a very large extent.

It is argued that a company can adjust its basic price to reward customers for certain responses such as early payment of bills, volume purchases and off-season buying. These price adjustments are called discounts and allowances (Kotler, 2004). However, from this study, it seemed that FMCGs sector have not fully utilized the discounts and allowances pricing to reward customers who buy in bulk and pay promptly. This pricing aspect is practiced only to a moderate extent.

Optional feature pricing and perceived value pricing were practiced only to a small extent. Loss leader pricing and penetration pricing were practiced to no extent.

The second objective of the study was to establish the extent to which various factors influence the choice of pricing strategies. The study indicated that for the majority of firms in the FMCGs sector, their choice of pricing strategies were influenced by several factors. The factors influence the choice of pricing strategies to a large extent others to a moderate extent. The study shows that company objectives and cost of production and marketing influenced the choice of pricing strategies to a very large extent. It is argued that a goal to recover as much costs as possible may force the firm to set a high initial price (Kotler, 1999).

The factors that influence the choice of pricing strategies to a large extent include competitive policies and strategies, product quality and size of the product.

The factors which influenced the choice of pricing strategies to a moderate extent include government policies, marketing mix variables and product distinctiveness. Other factors such as customer location influenced the choice of pricing strategies to no extent.

The third objective was to establish the challenges faced by firms in using the various pricing strategies. Majority of the firms in the FMCGs sector were in agreement that there are challenges which are encountered. Stiff competition and high costs than anticipated were the key pricing challenges. The lowest challenge was poor timing in product introduction.

5.3 Conclusion

The study was important in revealing the extent to which firms in the FMCGS in Mombasa District and its environs have adopted pricing strategies. From the findings it was clear that the firms in the FMCGS have adopted various pricing strategies but in a varying extent.

The pricing strategies adopted by manufacturers of FMCGS to a very large extent include "ensure that pricing policy blends well with product value. ensure that the price of the product is in line with the market price and sell on credit to promote sales". It can be concluded that manufacturers of FMCGS price products according to product value as well as according to the prevailing market price in order to remain competitive. They also sell on credit in order to promote sales and maintain customers.

The pricing strategies adopted by manufacturers of FMCGS to a large extent include "attach importance to the distinctiveness of the company brand in its pricing and add a percentage mark-up on price in order to remain profiTable". In conclusion it can be argued that most manufacturers of FMCGS practice mark-up pricing in order to remain profiTable as well as recover costs. Most manufacturers of FMCGS also consider brand distinctiveness in their pricing strategies.

The study also revealed some challenges experienced by manufacturers of FMCGS in their pricing strategies. The biggest challenge faced being stiff competition and high costs than anticipated due to effects of inflation and high costs of production and marketing. Stiff competition also remains a big challenge as most of the firms produce homogeneous products which are hard to differentiate except through branding.

5.4 Recommendations

Based on the findings of the study, the researcher gives the following recommendations:

(i). Firm's in FMCGs sector in Mombasa should adapt more diverse pricing strategies such as discounts and allowances pricing and premium pricing instead of concentrating on just a few pricing strategies based on costs. A more diverse pricing strategy will help them cope with unexpected changes from the marketing environment for example changes in government policies or changes in prices of competitors products.

(ii). From the study it is apparent that manufacturers of FMCGs experience a big challenge in form of tax payments to the government. It is recommended that the firms should join an association from where they can negotiate for reasonable taxes from the tax authorities.

(iii). Pricing is a critical element in every marketing plan because it is directly connected to a company's revenue and profit goals (Kotler, 2002). To effectively design and manage pricing strategies, a marketing department is essential. From the study, it has been established that some of the firms do not have a marketing department. It is therefore recommended that such firms should establish marketing departments to achieve effectiveness in pricing. A marketing department will help such firms make better choices in regard to the choice of pricing strategies.

5.5 Limitations of the Study

The main limitation was in accessing the operational managers who represented the views of the organization. Most of them were very busy and many visits were made to trace them. Finally the study used employees in managerial positions as respondents and therefore giving the study a managerial perspective. This approach leaves other major players, for instance customer perspective out of the picture.

5.6 Suggestions for Further Research

Pricing in FMCGs is sensitive due to stiff competition and changing life-styles of consumers. Pricing by other manufacturers can be investigated. The methods and challenges they face. A study on promotion strategies adopted by manufacturers of FMCGs in Kenya can also be investigated.

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APPENDICES

APPENDIX 1

INTRODUCTORY LETTER

Gladys M. Wamiori
School of Business
C/o MBA Office
Department of Business Administration
P.O. Box 30197
NAIROBI.

Date: March, 2009.

Dear Respondent,

REF: COLLECTION OF SURVEY DATA

I am a Post Graduate student at the University of Nairobi, at the School of Business. In order to fulfill the degree requirement, I am undertaking a Management Research Project on the "Pricing Practices adopted by Manufacturers of Fast Moving Consumer Goods in Mombasa".

You have been selected as the respondent of this study. This is to kindly request you to assist me collect the data by filing out the accompanying questionnaire which I will collect from your premises.

The information you provide will be used exclusively for academic purposes. My supervisor and I assure you that the information you give will be treated with strict confidence. At no time will you or your organization's name appear in my report. A copy of the final paper will be availed to you upon request.

Your co-operation will be highly appreciated.

Thank you in advance.

Yours faithfully.

Gladys M. Wamiori
MBA Student
University of Nairobi.

M. Kinoti
Lecturer/Supervisor
School of Business
University of Nairobi.

APPENDIX II

OPERATIONAL DIMENSIONS OF PRICING STRATEGIES

Dimensions required identifying the operationalization of the strategy.

Broad Dimension of pricing policy	Dimensions of pricing	Relevant issues	Relevant questions
Value Pricing	Contents/Ingredients	Is the Product priced according to its value?	1
Competitive Pricing	Market price at par below or above competitors	Is the pricing policy in line with that of competitors?	12,20, 43
Customers	- Psychological pricing - Emotional response - Perception - Income	- Does the price cause on emotional or a psychological reaction on the part of consumers? - Is the price in line with Demand?	2,8,30
Quality	Different prices	- Does the price conform to the quality of the product? - Is the product distinctive enough to warrant a high price?	5,31
Costs	- Cost plus pricing - Mark-up pricing - Loss-leader pricing	Is the price below cost In order to promote sales? Is the price able to cover costs of production? Does the price policy ensure a good return on investment?	9,10,22
Promotion	- Price discounts - Clearance sales - Price-off cents - Credit sales	Do you sell on credit in order to promote sales? Do you promote sales through warranty?	14,15
Location	Price Discrimination	Do you charge different prices	30

		in different geographical areas?	
Statutory Regulations	Price control	Are products priced according to legal requirements?	23,44
Form	Differential pricing	Are products priced differently not in respect to respective costs?	6,16
Market Share	- Penetration pricing - Price skimming	Have we put a low price in order to easily penetrate the market?	2,17,21
Marketing mix	- Package - Size - Features - Promotion - Distribution	Do the package size or features have any effect on price? Are the products priced to promote sales? Does the distribution process have any effect on price?	6,12,13 34
Pricing Objectives	- survival - Maximize current profit - Maximize market share - Maximize market skimming - Product quality leadership	- Price should cover costs to stay in business - Choose price that maximizes current profit and cash flow - set lowest price consuming that the market is price sensitive. - Setting high prices to skim the market - High quality products priced above competitors products.	10,37 11 24 3 6,31
NO. D			
Other Pricing methods	Mark-up pricing Target Return Pricing	- Estimate total costs and add a standard mark-up. - Determine the price that would yield the target rate of return on investors	10 41

	Perceived Value Pricing	- Buyers perception of value not sellers cost as the key to pricing.	18
	Going rate Pricing	- Basing prices on competitors prices	2, 25
	Sealed Bid Pricing	- Basing price on expectations of how competitors will price.	27
	Geographical pricing	- Cash, counter trade, barter; Deciding how to price for customers in different locations and countries.	
	Discriminatory Pricing	- Price to accommodate differences in customers, products or location	30, 43
	Differential Pricing	- Price to stimulate demand during low demand period.	19, 28
Pricing Challenges	Impact of pricing on the market mix	- What is the impact of price on promotion for example discounts and allowances? - Does the high cost of distribution result to a high price?	13, 14, 39
	Customers and competitors reaction	- How do consumers and competitors react to price changes?	36, 40
	Cost of production	- High cost of production and taxes affects the price.	22, 33, 35, 37

APPENDIX III

QUESTIONNAIRE

PART I

General Information

(i) Name of your Company ______________________________

(Optional)

(ii) Your Title ______________________________(Optional)

(iii) Using the categories below, please indicate the ownership of your FMCGs firm.

(Please tick one).

- Foreign owned ( )
- Locally owned ( )
- Hybrid of local and foreign ( )

(iv) Using the categories below, please indicate the age bracket in which your company falls. (Please tick one)

- 1 - 5 years ( )
- 6 - 10 years ( )
- Over 10 years ( )

(v) How many branches/outlets does your firm have?

____

(vi) Using the categories below please indicate the destinations your products go to.

- Local ( )
- Comesa ( )
- Other parts of the world ( )

(vii) Using the information given below, please indicate the category of products the Company deals with.

- Beverages ( )
- Confectionery ( )
- Foods ( )
- Packaging ( )
- Hygiene ( )
- Stationery ( )
- Others ( )

(viii) How many employees does your firm employ?

(Please tick one)

(i) 0 - 500 (ii) 501 - 3000 (iii) 3001 and above

PART II

Please indicate the extent to which your organization practices the following pricing strategies on a scale of 1-5 where:

5 is to a very large extent

4 is to a large extent

3 is to some extent

2 is to a small extent

1 is to no extent

No.	Issue	5 Very large extent	4 Large extent	3 Some extent	2 Small extent	1 No extent
1.	Ensure that pricing policy used blends well with product value					
2.	Ensure that the price of a product is in line with the market price					
3.	Setting initial high prices to maximize profit on each item sold					
4.	Seek customer perception when pricing new products					
5.	Provide a range of differently price quality levels of products					
6.	Attach importance to the distinctiveness of the company brand in its pricing.					
7.	Normally unbundle some products to offer what customers can afford.					
8.	Price some products according to customers perception of value.					
9.	Price some products below cost of production to attract customers in certain seasons.					
10.	Add a percentage mark-up on price in					

	order to remain profiTable.					
11.	Sets prices according to the firm's objectives					
12.	Normally change prices in response to changes in prices of competitors' products.					
13.	Consider other marketing mix variables when pricing products.					
14.	Give discounts and allowances to customers who buy in bulk and pay promptly.					
15.	Sell on credit in order to promote sales					
16.	Optional product features have a major impact on the main price.					
17.	In our firm prices are set to maintain market share					
18.	The price of by-products have a major influence on the main price.					
19.	In our firm we prefer odd number pricing e.g. 999/=					

PART III

Please indicate the extent to which the following factors influence the choice of the pricing strategies that your firm uses.

No.	Issue	5 Very large extent	4 Large extent	3 Some extent	2 Small extent	1 No extent
20.	Competitive policies and strategies					
21.	Market and demand					
22.	Costs of production, marketing and					

	other costs					
23.	Government policies					
24.	Company Objectives					
25.	Number of products in the line					
26.	Buyer tastes and preferences					
27.	Distributors and other dealer requirements					
28.	Product distinctiveness					
29.	The type of market segment					
30.	Customer location					
31.	Product quality					
32.	Marketing mix					
33.	Economic conditions such as inflation and recession					
34.	Size of the product					
35.	Rent, salary and bills paid monthly					

PART IV: CHALLENGES EXPERIENCED BY FIRMS IN USING THE VARIOUS PRICING STRATEGIES:

What challenges does your firm experience in using the various pricing strategies.
(Tick as many as is appropriate)

No. **Issue**

36. I face many challenges such as stiff competition when pricing products----- [ ]
37. The firm has experienced high costs than anticipated as a key pricing challenge --- [ ]
38. Poor timing in product introduction has been a key challenge the firm has faced --- [ ]
39. Inadequate market analysis is a challenge that has faced the firm when pricing its products --- [ ]

40. In the past the firm has been unable to anticipate consumers reactions to price changes--- [ ]

41. A major challenge to the firm is that retailers buy in bulk and are interested in high profit margins -- [ ]

42. High discounts reduces profits of manufactures ---------------------------------- [ ]

43. One of the biggest problem the firm has been experiencing is how to deal with counterfeit products from other manufacturers ---------------------------------- [ ]

44. High taxes charged by legal authorities have been a major challenge facing the firm.--- [ ]

45. Price discrimination has discouraged many consumers from using our products --- [ ]

APPENDEX IV
PRICE UNDER VARIOUS NAMES

Tuition	-	Education
Interest	-	use of money
Rent	-	use of living quarters
Fore	-	taxi ride or air line flight
Fee	-	services of a physician
Retainer	-	lawyers' or consultant services
Toll	-	long distance phone call or travel on some highway.
Salary	-	services of an executive or other collar work.
Wage	-	services of a blue collar worker
Commission	-	sales person services
Dues	-	membership in a union or club.

And in socially undesirable situations, there are prices called: Black mail, ransom or bribery.

Source: suggested in Port by John T. Mentzer and David J. Schwartz. Marketing today, 4th ed; Horcourt Brace Tavanovich. San Diego 1985. p. 599.

APPENDIX V

LIST OF FIRMS

A list of manufacturers of Fast Moving Consumer Goods in Mombasa and Kilifi Districts.

1. Sybes Commodities	-	Edible Fats
2. M. A. Pandit	-	Cashewnuts
3. Fayaz Bakery	-	Bread
4. Diamond Industries	-	Edible Oil
5. Mombasa Maize Millers	-	Taifa Unga
6. Kitui Flour Mills	-	Dola Unga
7. Bake and Bite Bakery	-	Bread
8. Choice Bakery	-	Bread
9. Rubi Plastics	-	Polythene bags
10. Hussein Bakery	-	Bread
11. Nesfood Industries	-	Bread/buns/biscuits
12. Mombasa polythene bags	-	Polythene bags
13. Pwani Oil Products	-	Edible Oil
14. Pearly water	-	Water
15. Blue Room Company	-	Ice Cream
16. Kenya Co-operative creameries	-	Milk
17. Blue Wave	-	Water
18. Book first	-	Bread
19. Fosters Bakery	-	Bread
20. Burhani bakers	-	Bread/buns
21. Nairobi Mineral water	-	Drinking water
22. Clearly Kenyan	-	Water
23. Kensalt Ltd	-	Salt
24. Sasini Tea	-	Tea
25. Gold Crown beverages	-	Edible Oil
26. Packaging manufacturers (1976) Ltd	-	Packaging materials

27. Maisha commodities	-	Black Tea
28. T.S.S Grain Millers	-	Flour
29. Mombasa Salt Works	-	Salt
30. Tasdif Express	-	Tomato sauce
31. Anglo Swiss bakery	-	Bread
32. Sheena foods	-	Tomato sauce/bans
33. Seifees bakery	-	Bread
34. Eagle bakery	-	Bread
35. Uji Pwani	-	Flour
36. La Azam	-	Ice cream
37. Mombasa Cashewnuts	-	Nuts
38. Dais bakery	-	Bread
39. Kongowea bakery	-	Bread
40. Kensil Ltd	-	Candles
41. Slapper shoe company	-	Slippers
42. Henkel Kenya	-	Detergents/disinfectants
43. Fashions '99 Ltd	-	Candles
44. Interchem Laboratories	-	Detergents/disinfectants
45. Cables and plastics Ltd	-	Buckets and basins
46. Kenya Adhesives Ltd	-	Adhesives
47. Milly Fruit Processors	-	Soft drink
48. Mzuri sweets	-	Sweets.
49. Coastal Beverages	-	Carbonated beverages
50. Zein Water	-	Water
51. Laz Drinking Water	-	Water
52. Paradise Water	-	Water
53. Furat Drinking Water	-	Water
54. Prima Water	-	Water
55. Kidimo Enterprises	-	Water
56. Pwani Plastic Ltd	-	Polythene bags

Source: Kenya Bureau of Standards (KEBS) 2009 Mombasa Office.