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RESEARCH ARTICLE

An Investigation of Pricing Strategies used by Supermarkets in Eldoret Town

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ABSTRACT

This study was an analysis of the pricing strategies used by supermarkets in Eldoret town. Supermarkets in Eldoret town were began by white settlers. The oldest of the supermarkets that was set up in 1968 was Aziz and Akbar. By the year 2004 the number of supermarkets in Eldoret town had increased to 25. A survey of these supermarkets shows that each one of them has different pricing for the same product that has been supplied by the same supplier. There is need to investigate why these supermarkets are charging different prices for the same product yet they are serving the same market. The objectives of the study are to identify the pricing strategies used by supermarkets in Eldoret town and to establish factors considered in choosing pricing strategies. The study is based on a strategic pricing model by Kotler (2000), which states that any organisation should have a strategic pricing plan to be able to exchange its products or services successfully in the market place. This study was a descriptive research, and it followed a cross-sectional design. The sample population comprising of 25 supermarkets in Eldoret town was targeted. However, only 13 supermarkets' managers were interviewed. The rest of the managers' declined to be interviewed. Data was collected by use of questionnaires that were issued to the supermarket managers and by observation. The results of the observation were recorded in a notebook and later analysed together with the results from the questionnaires.The data was quantitatively analysed using the SPSS package and is presented in tables. The research established that most supermarkets in Eldoret town used the 'one price strategy' (fixed price) and leader pricing strategies. The other pricing strategies were in use too but at varying degrees. Price lining was the least in use. The study established that the most commonly used pricing strategies were one price, leader pricing, unit pricing and giving discounts to customers. This study recommends that since supermarkets have become a common phenomenon in Kenya in recent years broader based researches can be carried out to assess the growth trends and factors influencing their growth. The study also recommends that since other retail outlets are a threat to supermarkets in Eldoret town a study to establish the application of various pricing strategies by the retailers be carried out.

INTRODUCTION

Since supermarkets act as a link between the manufacturer and the consumer, they are expected to come up with pricing approaches that foremost reflect the manufacturers' recommended price and then provide a margin for their profits or whatever is their pricing objective. It is interesting to know how supermarkets come up with very different prices for the same product that has been supplied by the same supplier. Although Kotler and Armstrong (2004) call it perfect price discrimination we are yet to know how the supermarket managers arrive at different prices from their competitors. For example, why could Ukwala supermarket have a different price for Kimbo than Eldomatt supermarket given that they both get this product from the same supplier? Could these different prices among the supermarkets be a manifestation of different pricing strategies?
Looking at the previous researches a gap clearly comes out as these questions seem not to have been addressed and this is the essence of this study. Many studies have been done to underscore the importance of pricing strategies in the retailing sector but the evidence draws mainly from the developed economies and very little has been done in Kenya, a developing country. A study by Karemu (1993) touches on strategic management in the supermarkets, other studies by Sailewu (2001) and Musembi (2001) touch on the use of E-marketing in supermarkets. Masese (2001) touches on the selection of suppliers of merchandise to supermarkets. Kyalo (2001) also studied on private labelling by supermarkets in Kenya. Munyoki (1997) documents the factors affecting pricing strategies in the retail market with special reference to supermarkets in Nairobi.

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He recommended that an analysis on the pricing strategies used by our local supermarkets be carried out. In a study by Holdren (1960) prices were found to be inversely related to the size of the supermarkets while according to Hollander (1960) old supermarkets should have higher prices than young ones. All these need to be tested in Kenya where strategic management practices among retailers are not very advanced. The studies done so far have been generalised that it would be unrealistic for anyone to assume the results hold for all supermarkets. The present study confines itself to the pricing strategies and seeks to analyse the pricing strategies that are in use in supermarkets in Eldoret town. Pricing strategies have been documented and the purpose of this study is to identify them in terms of their relative importance in the Kenyan situation. Most of the studies carried out have concentrated on the factors, which influence pricing strategies. Those done to identify the pricing strategies used by supermarkets were done in the 1960s and were based on western developed economies and there is little research done in our local supermarkets especially to establish whether the pricing strategies are in use. The purpose of this study is to identify the pricing strategies that are in use in Eldoret supermarkets.

Pricing Strategies and Significance of Pricing

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

The common pricing strategies used by manufactures and retailers as documented by Munyoki (1997) include: discounts and allowances, geographical pricing, skimming and penetration, one price and flexible pricing, unit pricing, price lining, resale price maintenance, leader pricing and psychological pricing. Discounts and allowances is a case where the manufacturer reduces the price of the product from the list price, or gives some form of free merchandise to the buyer. This strategy does not discriminate among the customers. The customers who buy the discounted goods automatically get the discounts and the allowances. Geographical pricing strategies include uniform delivered pricing strategies (same price to all buyers, regardless of their location) and Zone delivered pricing (seller's market divided into a limited number of geographic zones and different prices charged in each zone). This is a strategy that is commonly used by supermarkets that have more than one branch and the branches may be located in different zones. Skim the cream strategy involves setting a high price within the expected range of prices, while penetration strategy involves setting a low initial price to reach the mass market immediately.

New products in the markets are the ones that attract either of these strategies. When the product does not use either of the two strategies a reasonable price is given to it. One price strategy involves setting the same price to all customers for the quantity of a product, while flexible price strategy involves payment of different prices by customers for the same quantity of a product, depending on their bargaining ability. One price strategy is more commonly used in supermarkets than flexible price strategy. The characteristic of a supermarket is what dictates this fact that one price is common. Unit pricing strategy is a retail price-information reporting strategy that has been applied largely by supermarkets. For each separate product and package size, there is a shelf price indicated. In a case where the unit is more than one like a dozen of cups it is called multiple unit pricing. Unit pricing is common in supermarkets because supermarkets are retailers who are supposed to take commodities to customers in the quantities that are needed by the customers. Price lining strategy involves setting a limited number of prices at which a store will sell its merchandise. For example, several styles of skirts at KSh. 599 each and another at KSh. 699 each and so on. This is a strategy that is in use in supermarkets that sell clothes where they can afford to group them together and sell them at a limited price. Resale price maintenance strategy is applied mainly by manufacturers who provide suggested list prices to retailers. The retailers are free to charge above or below the suggested price, although some manufacturers try to control the price as much as possible. In Kenya for example, Coca-Cola Company closely monitors the prices of its products to ensure they are maintained as recommended.

Leader pricing strategy involves temporary price cuts of few items to attract customers in the hope that as customers come to buy the leader items, they will stay on to buy other regularly priced merchandise and lead to increased sales volume and net profit. Psychological pricing strategies include price lining, prestige pricing above competitive levels, and raising too low price in order to increase sales. Another strategy is odd pricing in which prices are set at odd amounts, for instance KSh. 995 rather than KSh. 1000, or KSh. 499 rather than KSh. 500. There is little concrete evidence to support the retailer's beliefs in the value of odd prices as studies have reported inconclusive results (Stanton and Futrell, 1987). According to the economic theory (which we may also call price theory), emphasis is put on the role played by price in the working of the free-enterprise economy; the usual conditions of cost and demand that prevail. This explores the behaviour that will enable the producer-seller to obtain maximum profit in such situation. Unfortunately business executives cannot apply price theory to reach conclusions about the specific price to charge for their offering. According to Oxenfeldt and Kelly (1986) the managerial economist is concerned with such questions as whether the proposed price is one which will maximise real economic profits for the firm or simply raise book profits. Another concern is whether the appropriate cost and demand concepts have been used in estimating the effects of alternative price actions, and how cost and demand estimates should be made to arrive at a better price. This approach requires that the pricing process take into consideration its relationship with other elements of the marketing mix.

In summary, the multistage process encompasses six equally important decisions in the following order:

(i) **Selection of market targets:** The marketer must determine the target customers. This will enable the marketer to identify more sharply the acceptable limits placed on price by their target customer-when they will see it as too high and when as too low.

(ii) **Determine the perceived benefits:** Marketers must determine what benefits their offerings are seen to employ, and also decide what benefits they wish their target customers to perceive in their offerings.

(iii) **Composition of marketing mix:** In this stage, the marketer selects a combination of sales promotion devices that will create and reinforce the customer benefit mix and achieve maximum sales for the planned level of shilling outlays. Persuasion in this case is very important, and involves putting together arguments and presentations, which will communicate the desired customer benefits mix. The marketer determines the relative costs to be spent on promotions, distributions, service and so forth.

(iv) **Assigning role to price in the marketing mix:** Generally speaking, price should be seen as a balancing device, and the non price benefits in the offering should be weighed and contrasted with the perceived benefits offered by the individual rivals or with the average for all rivals. Depending on the outcome, the firm would then charge a lower price than rivals if the comparison is unfavourable or a higher price if it is favourable.

(v) **The selection of a pricing policy:** The role assigned to price must now be translated into a pricing policy which will be a guide as to the purpose of the prices, when changes are to be made, and for what products.

(vi) **Choice of a pricing strategy:** The firm must then select a course of pricing that is consistent with its long-run objectives. There are many strategies that a firm can employ to meet a special market situation.

(vii) **Selection of a specific price:** Finally, the marketer is in a position to set specific prices for the goods. Several approaches may be followed, such as starting with the highest price in the acceptable range and later reducing it if resistance is encountered. This is useful as it creates an impression of higher product quality and also allows added room for future reductions.

Price and brand are two important factors influencing the consumer's purchase of products or services. Price (merchandise worth) and along with brand, is one of the most important ways of establishing quality (Kyalo, 2001). At the level of primary demand, customers appear to have ranges of acceptable prices for products; so that prices either too low or too high are objectionable. This is because too low prices are associated with poor quality. Research has also shown that when buyers are given a range of choices in prices, they are most likely to choose middle priced items. Thus management can influence the product choices that are perceived as middle-priced (Munyoki, 1997). This works best for retailers who use price lists or price catalogues. According to Munyoki (1997) customers who find it difficult to compare the prices of individual items directly tend to generalise from the overall price image of a store. Management, in their pricing policies, should thus consider not only their pricing of individual item, but also the need to develop a favourable overall price image (Munyoki, 1997). There are two main theories in retail pricing namely Weber's law and the Fair-price hypothesis. The fair-price hypothesis states that the consumer's perception of price is influenced more by the concept of a fair price for the product than the degree of price difference (Munyoki, 1997). Weber's law indicates that at higher price levels, a greater change in price is required to influence consumer behaviour. According to Weber's law, retailers must provide markdowns of at least 20 % of the price in order to have impact on consumer perception. If the price is less than that provided under the law, then the promotional strategy should probably be on quality and other distinguishing features of the product other than price. However, if the reduction in price is significant with respect to the absolute price as compared with the prices of competitive products, price probably should be emphasised in advertising. In one experiment, it was found that when the retail selling price of an item was lowered to 15 % below the manufacturer's suggested list price, there was a major increase in the attractiveness of the brand to consumers (Carson, 1976). Markdowns should be handled with care as consumers probably do not expect appreciable markdowns on certain items such as luxury items, and may begin to doubt product quality if the price is slashed.

Purpose of the study

The purpose of this study was to investigation of pricing strategies used by supermarkets in Eldoret town.

The Research Design

This study was a descriptive research, and followed a cross-sectional design. Luck and Rubin (1992) point out that a descriptive research is interested in knowing the proportion of some people in a given population who have behaved in a particular manner. The pricing strategies were accurately described and were shown to be relevant to the decisions made by the supermarkets.

Study Population and Sampling Procedure

The study sought to cover all the supermarkets within Eldoret town, which has a total of 25 supermarkets (Kenya Business Directory, 2004). Some of these supermarkets have more than one branch within the town. The study managed to interview a total of 13 supermarkets' managers due to resistance of some to be interviewed. This accounted for 52 % of the respondents. Some of these supermarkets were recently established.

Data Collection Methods

Data for this study was collected by use of a questionnaire for the manager or proprietors and use of observations.The questionnaire had both structured and unstructured questions that gave the respondents opportunity to appropriately answer the questions with precision. The researcher also used visual observations of the pricing strategies that were used in the supermarkets. Observations were recorded in a notebook and later compared with the questionnaires that the managers filled.

Methods of Data Analysis

To ensure that the objectives of the study were captured fully, all major variables were analysed on the basis of issues pertaining to pricing strategies and factors influencing such considerations, as they emerged from the area in question. Data was analysed using descriptive statistics and presented in form of tables by the SPSS package version 10.0.

RESULTS AND DISCUSSION

Use of Pricing Strategies

The analysis of the use of various pricing strategies showed that most of the supermarkets used one (fixed) price for their products and did not allow for negotiation of the price. It was only in a few supermarkets in which some regular customers who purchased in bulk negotiated for a price reduction. In 'one price' strategy the supermarkets set reasonable prices, which they thought the customers, would be satisfied with, so that no negotiation was called for. Leader pricing was also another commonly used strategy. Supermarkets usually used this strategy during special occasions when they expected more customers. The commodities whose prices were reduced were meant to attract customers so that as they came to purchase these particular items they would finally purchase other items with regular prices from the same supermarket and this would increase sales. With this kind of strategy the supermarket is at liberty to set the price slightly below the usual price. This obviously should be below the competitors' prices.Unit pricing was another highly used strategy by supermarkets. Each item was priced individually and cases of combining items and selling them together were found with some cutlery. The admission was that cutlery especially cups, plates, sufurias, spoons, knives, and forks were packed that way by the manufacturers and so the supermarket did not break them up into units. Giving discounts to customers was also an important strategy, but rather than give direct cash or commodity discounts, many supermarkets preferred to give special offers for some commodities so that every customer could benefit.

These offers were mainly given during month-ends when more customers were expected to make their purchases. Odd pricing was also a fairly used strategy, which is a form of psychological pricing strategy in which items are priced with odd numbers such as 299 instead of 300. The use of this strategy was declining because of lack of coins in the money market. Although some supermarkets admitted it was a very good pricing strategy, they were forced to round off their prices to a zero or 5 to minimise problems of change. For example, if a customer gave KSh. 400 for an item marked KSh. 399 and wanted a balance of KSh. 1, it was easier to price the item at either KSh. 395 or just KSh.400.These results are shown in Table 1

Table 1. The Use of Pricing Strategies

Strategy	Percentages, % (n=13)
Use uniform price in all branches (n=1)	100
One price	61.5
Leader pricing	61.5
Give discounts to customers	53.9
Unit pricing	53.9
Penetration	46.2
Odd pricing	46.2
Skim the cream	23.1
Flexible price	15.4
Price lining	15.4
Use different prices in all branches (n=1)	0

From Table 1 above it is apparent that most of the supermarkets use one price (61.5%) and leader pricing (61.5%). Very few supermarkets (15.4%) use price lining and flexible pricing.

Conclusion

The study revealed that supermarkets in Eldoret town applied most of the pricing strategies but at varying degrees. Most of the supermarkets used the 'one price' (fixed price) strategies. Leader pricing was also a common strategy among the supermarkets. These are strategies, which actually are part of the characteristics of supermarkets. They make supermarkets stand different from other retailers who use negotiation in prices. Price setters of supermarkets believe that whatever prices they have set for their items are reasonable. They do not expect customers to negotiate with them. Most of the pricing strategies were in use because of the liberalised market.

The way forward

This study established that the most commonly used pricing strategies in Eldoret town are one price, leader pricing, unit pricing, and giving discounts to customers. Marketing managers could therefore explore more pricing strategies that may give them a competitive edge over others as more supermarkets are established in this town. At the same time the supermarket managers should explore more attributes to pricing. This is an example of E-marketing. This may attract customers who use credit cards for their shopping.Consumers or customers who shop from the supermarkets should also be educated about the different pricing strategies that are used by the supermarkets. This will enable the customers to shop from supermarkets that have fair prices. study concentrated on the supermarkets and as it came out other retailers are emerging as major competitors. A research to establish the application of pricing strategies among these retailers might give some insight into their strategic management practices and how they compare with the supermarkets.Supermarkets have become a common phenomenon in Kenya today but unfortunately little research has been done in this area. A broad based research to assess the growth trends of supermarkets in Kenya could shed more light on the factors influencing the growth.

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