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“PRICE VARIATION BY SUPERMARKETS IN KAKAMEGA TOWN, KENYA”

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Abstract

To maintain competitive strategic posture, Supermarkets had adopted pricing as a strategy. The looks at the effectiveness of price variation as a competitive advantage in the supermarkets in Kakamega town. Four supermarket; Tuskeys, Nakumatt, Yako and Wallias with a population of four hundred (400) respondents in Kakamega town was selected because it is a cosmopolitan and attracts inhabitants from all parts of Kenya. Questionnaires, interviews schedules and observation were used as instruments of data collection. Even though the majority were aware of the price variation, they did very little to move to cheaper supermarkets because they got attracted with other factors other than prices of goods. Price management rarely attracts customers. Further research to be done on other strategies including location, quality of service and promotional activities.

Key Words: Price Variation, Strategy, Supermarkets

1. Introduction

Competitive Strategy according to John and Scholes (2006), strategy is the direction and scope of an organization over the long-term: which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of the markets and fulfil stakeholder's expectation. Strategy formulation is vital to the well being of a company or an organization. Competitive strategy consist of all those moves and approaches that a firm has and is taking to attract buyers, withstand competitive pressure and improve its market position (Thompson and Strickland, 2002). Competitive strategy therefore earns competitive advantage by establishing a favourable, profitable and sustainable position against the forces that determine industry competition (Porter, 1980).

As defined by Thompson and Strickland (2002) a company has competitive advantage whenever it has an edge over its rivals in securing customers and defending itself against competitive forces. They further argued that accompany competing in the market place with a competing advantage tends to be more profitable and is likely to earn higher returns than one competing with no advantage. Strategy is therefore mandatory for any firm that intends to succeed in its endeavours and must be distinct enough to set the organization apart from the rest of the competition. Therefore organizations that capitalizes on customers' active participation in organizational a activities can gain competitive advantage through greater sales volume, enhanced operating efficiencies, positive word of mouth publicity, reduced marketing expenses and enhanced customer loyalty.

Firms seek competitive advantage and synergy through a well integrated program of marketing mix elements (Walker, 2011). Brodrechtova (2008) explained that marketing strategy is a roadmap of how a firm assigns its resource and relates to its environment and achieves a corporate objective in order to generate economic value and keep the firm ahead of its competitors. The marketing strategies have a major impact upon the efficiency and cost structure of an enterprise.

Thuo (2008) looks at the broad perspective of the marketing mix and expounds that, for instance, price is more than simply the amount of money that the consumer pays when making the purchase. It also encompasses credit or finance deals, any discounts, special offers, and additional deliveries changes. Place or distribution is not just about the physical movement of products from manufacturer to consumer. It is also about the ease of access to products, the way they are displayed and the environment in which they are presented. Product is not just the physical item presented for sale; it also deals with the image that is created for the product through branding and the level of customer service that accompanies it and promotion is more than advertising. It should also cover all aspects on the way in which the organization communicates with its customers and other interested groups including its own employees.

1.1 Overview of Supermarkets in Kakamega County

Kakamega County has four Supermarkets and mini supermarkets namely; Tuskeys, Nakumatt, Yako, Wallias (Kenyaweb 2014). The rise of supermarkets in developing countries has received considerable attention in the development economies Literature over the past few years (Reardon et al, 2003). That literature shows that supermarkets are spreading quickly in urban areas and are modernizing their product procurement systems differentiating them from those used by traditional retailers and wholesalers. According to Neven & Reardon (2004) supermarkets in Kenya are giving an annual rate of 18% and have a 20% share of the urban food market overall.

1.2 Statement of the Problem

Strategy implementation is usually a challenge to many organizations. Many companies develop good strategies that do not fully implemented due to various reasons. The success rate is very low. Only 10 to 30 percent of the chosen strategies get implanted Raps and Kauffman (2005). Companies do not find difficulty with formulation of strategy; the difficulty comes with implementation as it is not each to implement a strategy (Sterling 2003). Sterling showed that only 30% of strategies are properly implemented by companies and this obviously needs improvement.

To maintain competitive strategic posture, Supermarkets had adopted pricing as a strategy. Therefore, there was therefore need to evaluate the effect of pricing on performance of supermarkets. The research will try to answer the question; how effective is price variation as a competitive advantage in the supermarket market in Kakamega town?

1.3 Research Objective

To evaluate the effectiveness of pricing as a strategy by supermarkets in Kakamega town

2. Literature Review

2.1 Factors Influencing Customer Satisfaction

Customer satisfaction is the overall impression of customer about the supplier and the products and services delivered by the supplier. Customer satisfaction can be influenced by the following factors; department wise capability of the supplier, type and quality of response provided by the supplier, supplier’s capability to commit on deadlines and how efficiently they are met, customer service provided by the supplier, complaint management, cost, quality, performance and efficiency of the product, supplier’s personal facets like etiquettes and friendliness, supplier’s ability to manage whole customer life cycle, and compatible and hassle free functions and operations (Eniola 2006).

Challenges associated with implementing competitive advantage are those factors that within outside the company that are not well addressed hence leading to failure in implementation of the competitive strategy. According to Awino et al (2012) in their research they identified challenges as; core competence, such as training, skills, leadership, technology, design, branding, pricing and research. Others include resource-based which consists of personnel, finance, and people. Moreover, environmental challenges such as culture, governmental, societal and compliance with international standards and stiff Competition from the competitors.

2.2 Price Variation as a Competitive Strategy

Price variation occur when exactly the same good or service is sold at different prices at the same moment of time, International Monetary Fund (2004) Consumer Price Index Manual; Theory and Practice. Consumers are increasingly confronted with intense market place competition. Saturation, Overstoring and a rapid proliferation of new formats have changed competitive dynamics in retail markets. Low prices produced by price warfare would change consumer's perceptions of all prices. In other words, consumers' concept of 'low' price conforms to the context. Consumers might be persuaded to switch to the new low price stores unless loyalty keeps them from it, (Seiders, 1994). Even if price is the only one aspect of the determinant mix, the various theories of search behavior and choice still do not explain how consumers use price in the decision process, especially when they do not know the price at all or where their guess is considerably outside of an acceptable range of price knowledge (Von, 2002).

Rampant price communications will cause consumers to place relatively more importance on price than on other attributes for determining store patronage. Expanded variation of one attribute among stores increases that attribute's impact on market share. This reinforces our expectation that attribute reweighting will occur when price variation increases as in our price warfare scenario. We expect price to increase in importance for store choice. For consumers to perform inter-store price comparisons usually requires that they retain price information in memory for later recall. Mazumdar and Monroe (1992) note that it is difficult to simplify retailer's price comparisons because they are few printed price lists and advertisements feature a small proportion of merchandise. Furthermore, advertisements often report only sale prices, leaving consumers uninformed about retailers 'everyday' price levels.

The 'new breed of thrifty consumer, who willingly treks from supermarkets to warehouse clubs' as having a 'frugality habit'. The speculation is that retailers place extreme emphasis on price through a variety of initiatives and communication tactics, are advancing price sensitivity among consumers. Consumers appeared to change their reference point for 'low price'. Those who switched stores said that price was particularly important to their store choice. Increased price variation also caused price to gain relative importance in determining store choice. This provided field study support for Eagle's laboratory findings that increased variation in one attribute enhances that attribute's impact on market share (Seiders, 1994).

3. Research Methodology

Descriptive research was adopted to enhance understanding and interpretation of findings.

Four supermarket; Tuskeys, Nakumatt, Yako and Wallias with a population of four hundred (400) respondents in Kakamega town was selected because it is a cosmopolitan and attracts inhabitants from all parts of Kenya. 30% of the target population was randomly as per Roscoe (1975) in Uma Sekaran and Roger Bourgie's book (2009). The researcher used both open and closed ended questions to collect data, according to Kothari (2006). A semi-structured questionnaire was used to carry out an in-depth interview for marketing managers. Observations were done to check the prices of sampled items across the shelves from each supermarket. The study also used secondary data to obtain prices of the goods that are not labelled. Completed questionnaires were coded and analyzed to ensure accuracy of information, and then the data collected was summarized and classified both qualitatively and quantitatively. Qualitative analysis of opinions was organized into themes and patterns relevant to the research method. Quantitative data was analyzed using descriptive statistics such as measures of central tendency of mean and frequency tables and correlation using Microsoft excel. Frequency distribution tables and graphs were used to organize and give a summary of the collected data and display in a meaningful and understandable manner so as to aid in describing and interpreting the outcome of the research.

4. Findings

4.1 Price Variation

This is the amount of money a seller is willing to accept in exchange for a product at a given time and under certain circumstances. It is worth to note that price allocates goods and services among those who are willing and able to buy them. It is therefore an important ingredient in business as it allocates financial resources among producers according to how well they satisfy customers' needs. Price is the exchange value of a good or service. An item is worth only what someone else is willing to pay for it.

In a primitive society, the exchange value may be determined by trading a good for some other commodity. The pricing strategy is influenced by factors which intervene in the production and distribution process. These factors include but not limited to; cost of raw materials, salaries and wages, transport expenses and storage factors. The price of a product should be above the break-even point in the production process if it has to make a profit.

ninety six (96) respondents were aware of the price variation among supermarkets as opposed to twenty four (24) who got external motivation to do their shopping at the supermarket irrespective of the availability of information about prices with respect to each supermarket. The information below indicates that Tuskys charged more on the selected items than other supermarkets and yet it attracted more customers.

Table 1: Summary of Consumer Goods

It is evident that supermarkets in town execute their services, of similar nature, at different prices. Even though the majority were aware of the price variation, they did very little to move to cheaper supermarkets because they got attracted with other factors other than prices of goods.

5. Summary and Recommendations

5.1 Summary

Price management rarely attracts customers. The image of the business is one of the main elements in customer satisfaction and high stock turnover which translate to high profits for customers. The research underscored the same thought as Yako charged high prices on household items as compared to other supermarkets and yet it attracted more customers. People identify themselves with successful entities. Yako, Tuskys and Nakumatt have put in place other strategies which have shown them grow. Lowering prices and Increasing advertising were least successful.

5.2 Recommendation

Other strategies like product promotion, location, product and service quality to be researched on. Replicate the same research in other towns; increase the respondents and probably other industries.

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Appendix : Tables

Table 1: Summary of Consumer Goods

Supermarket	Elianto	Menengai	Match	Maize	Wheat	Ken	Sugar	KeTePa
Yako	670	150	20	150	140	30	130	200
Nakumatt	665	148	25	145	135	25	135	180
Wallias	672	145	28	130	130	25	130	190
Tuskys	655	145	20	135	138	28	140	195

Source: Research Data, 2015