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An Investigation into Pricing Techniques of Flea Market Operators in Zimbabwe: Case study of Bindura (2015).

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Abstract

The study was aimed at investigating the pricing techniques of Flea Market Operators in Zimbabwe; using Bindura Town based Flea Market operators as a case study. The main objectives of the study were to identify pricing strategies, identifying the competitive edges of Flea market operators and to find out how traders ensure that their selling prices are viable. Questionnaires, Interviews and Observation where used as primary data gathering tools. Findings revealed that a plethora of pricing techniques was used to set selling prices but the chief method was competition based pricing technique. The major recommendations of the study were that Flea market operators should attain elementary theoretical knowledge of pricing and that they should maintain basic business records so that they can assist in setting viable prices.

Key terms [pricing strategy; Flea Market, Competitive edge; viable]

1.0 Introduction and background of the study

Bindura is a municipality in Zimbabwe's Mashonaland Central Province. As a result of shortage of formal jobs, some residents not only in Bindura, but in other areas in Zimbabwe are surviving as Flea Market Operators where they buy and sell for profit a wide range of products. McMahon and Yeoman (2004) say that pricing is one of the important ingredients in the success of a business and therefore an effective pricing strategy in the face of stiff competition becomes a competitive edge. Kotler and Keller (2009) states that pricing strategies range from competition-based pricing, cost-plus pricing, skimming/creaming, market oriented pricing, penetration pricing, dynamic pricing and absorption pricing.

These pricing techniques can be used to offer promising opportunities to entice new customers maintain current customers, fit realities of the market place, increase profits, , ,introduce new products, generate cash and offer reasonable returns to the Flea Market Trader.

1.2 Statement of the problem

Many traders try to set a price that will maximize current profits but low income customers want to pay the least possible price. Unlike established organizations that have knowledge about demand and cost functions which they use to set viable prices Flea market operators have to rely on other unorthodox methods to do so. A too high price will chase away customers and at the same time a too low price will threaten viability of the enterprise because costs may not be recovered. In emphasizing current performance, the Flea market operator, may sacrifice long-run performance by ignoring the effects of marketing-mix variables mainly competitors' reactions.

1.3 Research questions

- What are the current pricing strategy/strategies being used by Flea market traders in Bindura?
- How do they ensure that the prices for their products are viable?

- What is the competitive edge of Flea market operators?

1.4 Significance of the study

Formal employment is hard to come by in Zimbabwe with estimates of formal unemployment hovering over 90%. However, citizens are finding livelihoods in informal employment, which includes flea markets. It is therefore important that they flourish for the benefit of flea market traders as well as their dependents.

Delimitations

This study focused on the effectiveness of pricing techniques on the viability of Flea Market traders, in Bindura. This research was confined to licenced Flea market traders in Bindura which covered the period 20011-June 2015.

2.0 Theory and concepts

2.1 Pricing

Pricing techniques revolves around three main points which are: cost and profit objective, consumer demand and competition according to Kerin (2009). Griffin (1999) also holds the view that pricing is cost based, demand based or competition based.

2.1.1 Cost plus pricing

Drury (2007) says this is setting the price at production cost, including both cost of goods and fixed costs at current volume, plus a certain profit margin. For example, Flea market traders incur fixed costs such as rent paid to council and variable costs such as ordering costs which contribute to costs of products. A desirable mark-up will be put on the cost of the product and Kerin (2009) says that if costs are calculated correctly and sales are predicted accurately, the enterprise will operate at a profit.An advantage of this approach is that the business will know that its costs are being covered. Kotler and Keller (2009) suggest that the main disadvantage is that cost-plus pricing may lead to products that are priced un-competitively.

2.1.2 Competition based pricing

According to Armstrong (2008) and Kotler and Keller (2009), this occurs when the price is based upon prices of similar competitors product or services. Production and distribution costs are ignored to drive demand towards a product according to Gregson (2008).

Nagle and Holden (1995) outlined that when basing pricing decisions on how competitors are setting their price, firms may follow one of the following approaches:

- Below Competition Pricing - A marketer attempting to reach objectives that require high sales levels (e.g., market share objective) may monitor the market to ensure their price remains below competitors.
- Above Competition Pricing - Marketers using this approach are likely to be perceived as market leaders in terms of product features, brand image or other characteristics that support a price that is higher than what competitors offer.
- Parity Pricing - A simple method for setting the initial price is to price the product at the same level competitors' price their products.

The disadvantages of this pricing strategy is that an enterprise ignores its own production costs if it focuses too closely on the prices set by competitors, more time is needed to conduct and update market research and competitors can easily mimic whatever price you select according to (Palmer, 1994).

2.1.4 Creaming or skimming

Cream skimming is a pejorative conceptual metaphor used to refer to the perceived business practice of a company providing a product or a service to only the high-value customers of that product or service according to Monroe (2004). This strategy is employed only for a limited duration to cover most of the investment made. Monroe (2004) reveals that price skimming sees a company charge a higher price because it has a substantial competitive advantage. However, the advantage tends not to be sustainable because the high price attracts new competitors into the market, and the price inevitably falls due to increased supply says Kotler (2009).

2.1.5 Penetration pricing

This is the pricing technique of setting a relatively low initial entry price, often lower than the eventual market price, to attract new customers (Tellis, 1985) and the price will be raised later once the organization has gained a market share according to Nagle and Holden(1995). Gary and Johansson(1985) state that penetration pricing is commonly associated with a marketing objective of increasing market share or sales volume, rather than to make profit in the short term.

Kotler and Keller (2009) perceives that penetration pricing is advantageous in that it creates cost control and cost reduction pressures which in turn leads to greater efficiency, it discourages the entry of competitors and that it can be based on marginal cost pricing which is economically efficient. Shanker (2002) revealed that price penetration is most appropriate where the product demand is highly price elastic, is suitable for a mass market and where the product is standardized. Penetration pricing becomes predatory pricing when taken to the extreme and this is illegal in most countries according to Garda (1991).

2.1.6 Market-oriented pricing

This is setting a price based upon analysis and research compiled from the targeted market. This means that prices will be set depending on the results from the research. According to Kotler and Keller (2009) and Armstrong (2008). Market-oriented pricing takes into consideration variables such as expected demand, price sensitivity, perceived competition.

Cohen et al (2000) cautions that it is unwise to price a product solely based on the competition without looking at the bigger picture.

Morris and Fuller (1989) postulated that research into needs of both the company and the target market can help create profitable price strategy.

2.2 Factors to consider when setting prices

Gregson (2008) says that companies pricing decisions are affected by both internal and external environmental factors. Internal factors include the company's marketing objective, marketing strategy, costs and organizational considerations according to Frey(1982). Kotler (220) says external factors which affect pricing decisions include the nature of the market and demand, competition and other environmental factors.

2.2.1 Marketing objective

Clancy (1997) proposes that the company must first decide on its strategy for the product or service before setting a price and Banting (1996) says the company should follow at least one objective which may include survival, profit maximisation, market share leadership and product quality leadership. Stanton (1992) says that Companies set survival as their major objective if they are faced by heavy competition or change in consumer wants and Lnitt (1994) says many companies use profit maximisation as their pricing goal.

Kotler (2006) says those firms that want to obtain market share leadership set low prices and Lovelock (1996) says firms can also set prices low to prevent competitors from entering the market.

2.2.2 Costs

Balshlow (1999) says the company should charge a price that both covers all its costs for producing, distributing and selling the product or service and deliver a fair rate of return for its effort and risk. Companies with lower costs can set lower prices that result in greater sales and profit.

2.2.3 Consumer perception of price and value

Tse (2001) says pricing decisions should be buyer oriented. Effective buyer oriented pricing involves understanding how much value consumers place on the benefit they receive from the service and setting a price that fits this value (Simon, 1992).

2.2.4 Competitors

Schilissel and Chasin (1991) suggest that a key factor affecting the company's pricing decisions is competitors' costs and prices and possible competitors' reactions to the company's own pricing moves. If a company follows a high-price, high-margin strategy, it may attract competition says Kotler (2006). A low-price, low-margin strategy, however my stop competitors or drive them out of the market according to Tellis (1986). A company needs to benchmark its costs against its competitors' costs to learn whether it is operating at a cost advantage or disadvantage (Chisnall, 1997).

2.2.6 Other external factors

Stanton (1992) says that economic conditions can have a strong impact on the firm's pricing strategies (Stanton, 1992). Economic factors such as boom or recession, inflation and interest rates affect pricing rates because they affect both the costs of production and consumer perception of the product's price and value (Garda, 1991). The government is another important external influence on pricing decisions (Morris and Fuller, 1989).

2.3 Theoretical framework

The theory of price is an economic theory that contends that the price for any product/ service is the relationship between the forces of supply and demand. The theory of price said that the point at which the benefit gained from those who demand the entity meets the seller's marginal costs that is the optimal market price for the good or service (Stigler, 1987).

Adam Smith's adding up theory

The adding up says that the price of an object or condition is determined by the sum of the costs which include rent, labour capital and taxation that went into making it. The theory also revealed that the costs can compose of any of the factors of production including rent, labour, capital and taxation.

2.4 Empirical literature

Petrescu and Dhruv (2013) established that low prices and the hope to find bargains are the competitive edge of Flea market operators over their retailing counterparts. Singh and Janor (2013) concluded that sole proprietorships applied different pricing in the face of stiff competition and that the price depended on the need and internal factors of the business. Sije and Oloko (2013) found out that for Kenya's small scale traders, there was a strong positive correlation between penetration pricing strategy and performance of the enterprise. Ackerman and Tellis (2000) surveyed Chinese and American consumers shopping behaviour and concluded that cultural differences have a bearing on the prices. McEnally (2004) concluded that heavy users/shoppers in Orange County, California, America tended to be bargain hunters and hence Flea market operators need to take cognizance of this when pricing their products.

3.0 Methodology

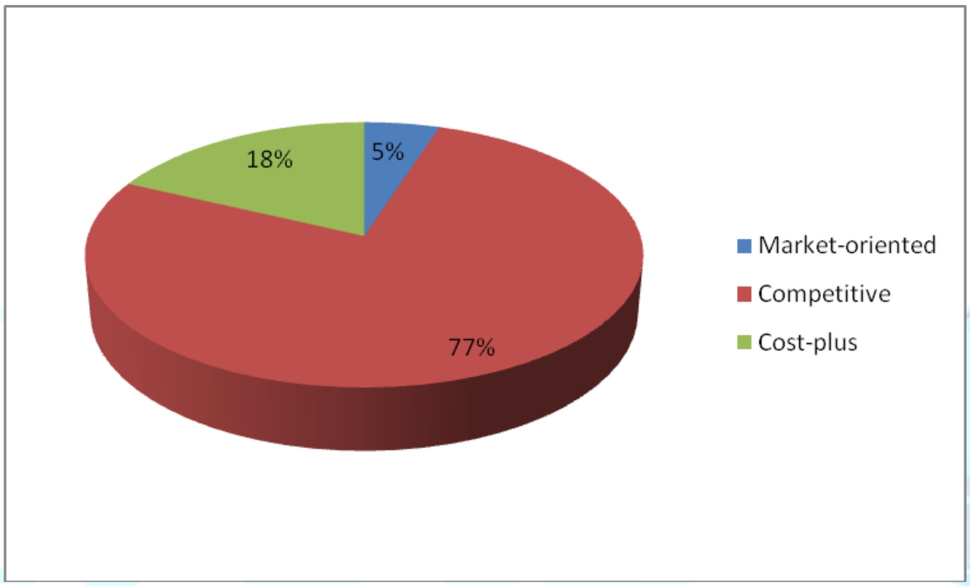
A descriptive research design was used to reveal a profile of pricing techniques of Flea market traders in Bindura Town. In order to focus resources of time and money, it was necessary to do a case study of Bindura based Flea market traders only. Mainly primary data gathered from questionnaires and interviews was used to make conclusions. From a population of 87 registered Flea market traders who operate in the Central Business District of Bindura, probability based 50% random sample of 43 respondents was selected and 37 questionnaires were distributed. Apart from questionnaires and interviews, observation was also used as a data collection instrument when the researcher moved around observing the prices of similar products on sale.

4.0 Presentation of research findings

4.1 Response Rate of research instruments

24 out of 35 questionnaires were completed and returned and 4 out of 6 interviews where conducted thus resulting in 65% and 83% respective response rate

4.2 Responses on the pricing technique used by flea market operators



Source: Primary data (2014)
Fig.4.1 : showing responses on pricing techniques

Analysis

Results indicated that competition based approach (77%) to pricing was the most common method. Market-oriented technique was the least popular method. Competition for clients among traders was very high and hence traders had to be cognisant of this when determining prices of their wares. These findings are in agreement with those by Petrescu and Dhruv (2013) who concluded from studies done in Romania and America that clients buy from Flea Markets in order to benefit from low prices and to make price bargains.

4.3 How do you set selling price?

Cost-plus pricing	Target return pricing	Contribution pricing	Bargaining
6	3	2	17
21%	11%	7%	61%

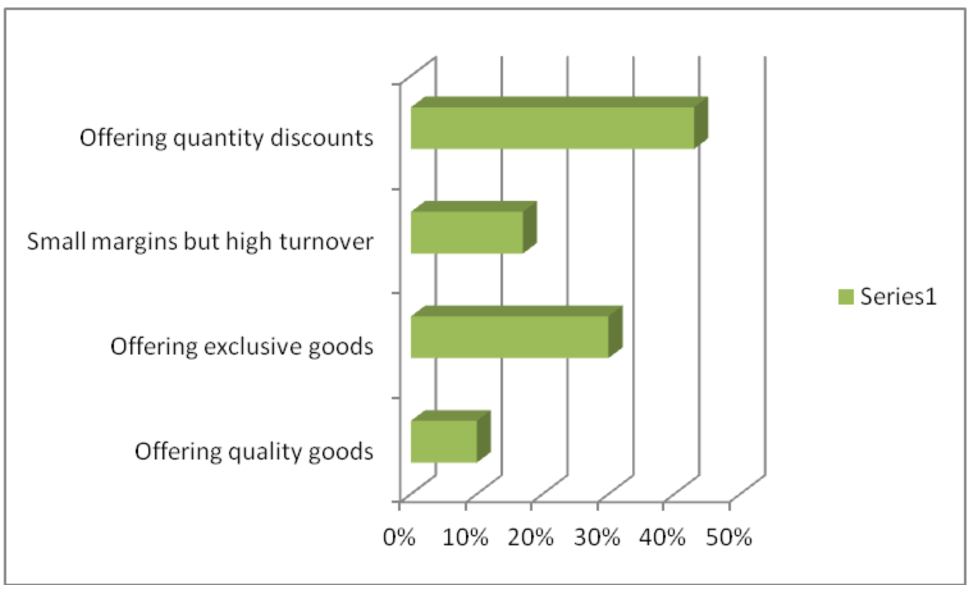
Source: Primary data (2014)

Fig 4.2: Showing how traders ensure that prices are viable

Analysis:

Most of the respondents (61%) said that they charge an initial high price, which is subject to bargaining by the customer and only 7% said they used contribution pricing. These findings were in line with similar findings by McEnnaly (2013) who established that prices at a Flea market are subject to compromise. Traders just ensure that the final price exceeds the cost of the items and this is how they ensure that their prices give them a profit.

4.4 What is your competitive edge?



Source: Primary data (2014)

Fig.4.3: Showing competitive edge of Flea Market traders

Analysis: Results indicate that most Flea market operators (43%) attracted clients by offering discounts/negotiated prices and the lowest response (7%) was using quality to lure clients. Most of the items at Flea Markets are homogeneous and price becomes a key aspect. List (2008) confirmed in a research study that 'bilateral bargaining' is a main feature of Flea market trading.

5.0 Conclusions

- Flea Market Traders in Bindura use three pricing techniques namely; cost-plus pricing, market oriented and competitive pricing though traders mainly focus on competitive pricing.
- In determining viable prices, Flea market Traders ensure that the prices they set are always above the cost price per unit. In that respect some form of contributory pricing is applied.
- Flea market traders mainly use 'bilateral bargaining' in order to gain competitive advantage.
- Flea market traders find it challenging to set prices because of the existence of competition and may end up agreeing to suboptimal prices in order to conclude a sale.

5.1 Recommendations

- Flea market traders should use competition based pricing technique and at the same time considering the costs being incurred so that it can be competitive and profitable.
- Flea market traders can enhance their competitiveness by offering differentiated products which are less prone to competitive pricing.

- They should keep proper records of costs incurred to procure goods so that they charge prices above real cost of goods and not just the purchase prices

- Flea market operators should liaise with any of the three universities in the town and have their members undergo rudimentary courses in pricing techniques so that they are theoretically equipped to improve their enterprises.

- Cutting costs measures should be put in place in order for the company to charge competitively so as to minimise costs and maximise profits. These measures may include inventory management so that Traders optimise of stock holding costs.

- Profit maximization can only be achieved when a company covers both operating and fixed costs. Cost-plus pricing is the best pricing technique to adopt if the company's objective is to maximize profits.

- Customers prefer low and fair market prices, high quality of goods and this can only be achieved by creating a good image of the enterprise, creating good relationship with customers and the exercise of efficiency in delivering goods.

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