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Effect of Pricing Strategy and Growth of Selected Hotels in Nyeri County, Kenya

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Abstract

Price is a very important part of the marketing mix as it can affect both the supply and demand of the firms' products. Since pricing strategies influence has an impact on market share, performance and growth of the firm, every firm has its separate pricing policy or strategy for its products. This study therefore sought to examine the effect of pricing strategy on growth of selected hotels in Nyeri County, Kenya. The study was anchored on Ansoff matrix; 4C's marketing model and Unique Selling Proposition. The study used descriptive research design. The study used questionnaire as the primary research instruments. The researcher used Cronbach alpha Coefficient to assess reliability of data using. The target population for this study was the 57 respondents from selected hotels within Nyeri County. A self-administered, questionnaire was used to collect data from the target respondents. Data analysis results generated using SPSS version 21 was presented in form of frequency tables. Bivariate Linear Regression results indicated that price had positive and statistically significant effect on hotel growth. The study recommends the hotel managers to review their prices regularly without compromising quality. In addition, hotels should come up with criteria that should ensure communication reach all the potential customers effectively. Future research should focus on other marketing mix variables such as promotion, place and product to establish the effect on growth of hotels.

Key words Price, Marketing Mix, Growth, Hotel

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1. Introduction

Price is defined as the amount of money charged to the buyer for acquiring as well as using a product (Fyall and Garrod, 2005). It's the most flexible element of the marketing mix, the only element which produces revenue and it can be changed quickly. According to Rogerson (2013), on a study in South Africa, price determines the amount of profits a company makes. He noted that price is the value attached to a product and it's the lone element of the marketing mix that makes profit for the organization. Lamb, Hair and McDaniel (2012) studied on the broad perspective of the marketing mix and concluded that, for instance, price comprises of more than simply the amount of money that the consumer pays when buying a product which is the basic definition. It includes issues such credit deals, discounts available and special offers. Price refers to the total amount of money remunerated by customers to purchase the product. It consists of issues for example credit, list prices, discounts, repayment term as well as conditions (Fyall and Garrod, 2005). According to Lauterborn (1990), cost is equivalent to pricing in the traditional marketing mix. He noted that price is not the lone cost incurred when purchasing a given product. Opportunity cost or cost of conscience is as well part of the cost of product possession. From that perspective cost was found to be an extremely important deliberation when making consumer decision and hence in the principle of 4 C's, the variable of cost is given special consideration. The model of 4 C's generally plans basing on the customers rather than products. Hence, they must plan product cost on the basis of their customer.

Muchina (2012) did a study on the marketing mix effects on profitability of institutions within the sector of banking in Kenya. From the findings of the study he found out that decisions of the products, promotion, pricing as well as distribution were found to have an effect on productivity in the banking industry. The study recommended that there should be creation of more awareness on the pricing as most of them were not aware of some of the prices especially the hidden charges. This was despite the fact that most customers chose products depending on the price of the product. The pricing strategies have a major impact upon the performance and growth of an enterprise. There are things that can limit the effectiveness of a marketing strategy. For instance, the failure to adjust price to account for changes in market conditions, such as the appearance of a new competitor who offers much lower prices, may cause a firm to lose customers. Not taking the time to conduct thorough research before developing pricing strategy can result in a marketing campaign that misses the mark and wastes valuable marketing dollars (Ong'ong'a, 2014). This study therefore sought to examine the effect of pricing strategy on growth of selected hotels in Nyeri County, Kenya.

1.1. Statement of the problem

Hotels in Kenya operate in a dynamic business environment characterized by intense competition for resources and market share hence have become more challenging to manage and sustain their growth rate. Despite their importance of to the economy, hospitality industry faces a lot of challenges in terms of competition. Therefore it is important for them to do adopt some marketing strategies so as to realize profits in terms of sales and growth. However, finding the right balance for a marketing mix is a big challenge to many companies. Hotel administration needs to put many factors into consideration when setting the marketing mix, (Seyed, 2011). The reviewed literature studies revealed that price is a very important part of the marketing mix as it can affect both the supply and demand of the firms' products. According to Lagesand Montgomery (2005), pricing strategies influence market share in soft drink industry. Griffith (2004) found out that consumers are willing to pay an extra amount of money when they are assured of qualities in the product. Myers (2001) noted that consumers have different perception of the products depending on the price. Therefore, pricing products for consumers is a mind boggling task, mainly because a high price may cause negative feelings about products, and also a low price can be misleading on other products features such as quality. Empirical evidence of the role of price and how it affects growth of Hotels in rural environment is scanty in the African contexts and more in Central Kenya. This is the research gap that this study sought to fill by examining the effect of pricing strategy on growth of selected hotels in Nyeri County, Kenya.

1.2. Objectives of the Study

The objective of the study was to examine the effect of pricing strategy on growth of selected hotels in Nyeri County, Kenya.

2. Literature review

2.1. Theoretical review

The study was informed and guided by 4C's Marketing Model and Unique Selling Proposition Theory. 4C's Marketing Model is usually the marketing mix which has been based on the McCarthy's 4Ps that is price, promotion, product, as well as place. The components of this marketing model include consumer, cost, communication and convenience. Cost is equivalent to pricing in the traditional marketing mix. Price is not the lone cost incurred when purchasing a given product. Opportunity cost or Cost of conscience is as well part of the cost of product possession (Lauterborn, 1990). Cost is an extremely important deliberation when making consumer decision and hence in the principle of 4C's, the variable of cost is given special consideration. The model of 4 C's generally plans basing on the customers rather than products. Hence, they must plan product cost on the basis of their customer. Product costing is dependent on the customer therefore every company has its separate pricing policy or strategy for its products. Costas (2010) noted that competitors often try to match prices, particularly if their products are similar. Keegan (2008) opined that if one company enters an industry in which prices are already low, setting the lowest price is usually unrealistic. He recommended that when customers already trust a competitor with low prices, a new company should focus on carving out a niche for itself instead of beating that company's prices.

Unique Selling Proposition Theory as proposed by Rosser Reeves in 1961 propounded that a unique selling point is a factor that a business has that is different or better than what the competitors have hence making it stand out from its competitors. Lages and Montgomery (2005), noted that price is a very important part of the marketing mix as it can affect both the supply and demand of the firms' products. Theodore (1986) suggests that product and price differentiation is one of the most important strategic and tactical activity in which firms must constantly engage in so as to make themselves better than their competitors. According to this preposition, a business can peg its unique selling point on its product, price, promotion and place strategies so as to position the product and differentiate it from what competitors are offering so as to attract as many customers as possible. This study therefore sought to investigate how pricing strategies would affect growth of hotels in Nyeri County.

2.2. Empirical review

Price is defined as the amount of money charged to the buyer for acquiring as well as using a product (Fyall and Garrod, 2005). It's the most flexible element of the marketing mix, the only element which produces revenue and it can be changed quickly. Markgraf (2015) on a study found out that the price charged by the seller ought to match the product. In the hotel industry, price determines the destination's competition with other destinations and includes costs of transportation to and from a given destination, food, accommodation and attractions. Devashish (2011) on a study in India concluded that the price strategy not only includes the real price that the organization charges but also includes discounted price as well as volume discounts as for bundled products. Griffith(2004), in his study about the marketing strategy in Korea concluded that adjustment of prices to market situation have positive influence on the market share and adaption of pricing strategy would increase the market share.

Mwangulu (2014), the study found out when firms want to stimulate short term pricing strategies there is increase in sales. Howard and James (2013) found out that there was strong positive correlation between penetration pricing strategy and market performance of a company. The business will tend to have a larger market share, loyal customers and some technological edge, thus the case currently with Coke; it was first the follower but through effective management has now become the leader of the market and is working towards achieving the marketing objectives of the Coca Cola (Zhang and Hnatko, 2014). Reece (2010), noted that market penetration challenges exist since products are expensive to create; and attempting to have the lowest prices may not lead to a significant profit. Furthermore, if a company keeps prices low for a time and then raises those, customers will probably go elsewhere (Costas, 2010). He noted that market penetration strategy can cause prices to lower throughout the entire industry since competitors often try to match prices, particularly if their products are similar. The company that initiated the market penetration strategy must further lower its prices to outmatch the competition. Soon all competitors might be selling products at an extremely low price that barely makes a profit. Keegan (2008) cautioned that if one company enters an industry in which prices are already low, setting the lowest price is usually unrealistic. He recommended that when customers already trust a competitor with low prices, a new company should focus on carving out a niche for itself instead of beating that company's prices.

According to Myers, 2001), consumers have different perception of the products depending on the price. Therefore, pricing products for consumers is a difficult task, mainly because a high price may cause negative feelings about products, and also a low price can be misleading on other products features such as quality. Yari *et al.* (2009), noted that a good distribution system has to have the market price is equals to the cost of production plus a profit for producers, sales agents and shipping costs. Markovic (2004), aimed to measure service quality using empathy dimension in Croatian Hotel Industry. The results indicated that some services were overpriced while others were underpriced. He recommended that a better allocation of resources and a more effective design of marketing strategies, such as communications mix and pricing components, can ensure a proper level of service quality in hotels. The study by Kamau *et al.* (2015), on effects of marketing mix on selection of Tourist Accommodation by Domestic Tourists in Kenya recommended that Hotels should price their products in relation to competitor's prices and they should tailor make their products to attract local tourists. They noted that there are different pricing strategies which include price skimming whereby hotels charge the highest price probable that customers who most desire the product being offered will pay for it. Odd-even pricing is where sellers end prices with a certain number for example Ksh. 2999 which sounds cheaper than Ksh. 3000.Price bundling is where hotels sell multiple services together at a lower rate than that which customers would incur if they purchased each item separately. Hotels may unbundle price that is breakdown prices and allow customers to decide what they want to purchase. Cost-plus pricing where cost is calculated then a percentage is added.

2.3. Operational framework

Operationalization refers to the stringent process of defining variables into factors that can be quantified (Gray, 2004). Figure 1 show the parameters used to measure response variable (growth of hotels) and the stimulus variable (price).

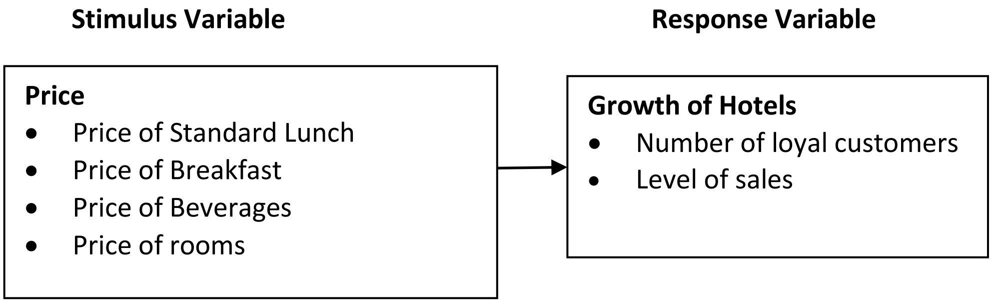

Figure 1. Operational Framework

2.4. Price and Growth

According to Rogerson (2013) on a study in South Africa, price determines the amount of profits a company makes. Price is the value attached to a product and it's the lone element of the marketing mix that makes profit for the organization. Changing the price of a product in relation to competitors prices has a major influence on the marketing strategy because it affects demand of a product and hence the sales. Hence the price should complement the other elements of the marketing mix. Rogerson (2013) added that however attractively made and packaged a product is, its demand will not be high if the prices are unattractive relative to competitors' prices. Price attributes such as discounts, allowances, payment periods and credit terms should be considered well in advance. However a firm must know the value attached to their products by customers when setting prices of the customer perceived value for their products because in some cases the quality of a product is attached to its price.

Some of the measures of price include the price of standard lunch, price of breakfast, price of beverages and prices of rooms for accommodation. The choice all depends on the customers' ability and willingness to pay for the kind of meals they want to take at a hotel. For hotels targeting high end customers they should focus more on quality of the products offered because such customers associate high prices with better quality and hence they should get value for their money. For such customers the things that attract them to products are other factors such as attractiveness and ambience of a place, free services such as free Wi-Fi, less congested places, ample parking space, security hence hotels should put such factors into consideration when deciding on the target market. The price for a room depends on many factors such as the time of year whether its peak season or off peak seasons, the physical specifications of the room such as room size, whether it's on the ground floors or upper floor rooms, Suite or non-suite, room service among others, the specification of the hotel including location, star rating, hotel brands, amenities among others, the market competitors prices, the duration of stay, the rate of occupancy, and the number and type of guests.

3. Methodology of research

The study adopted a descriptive survey research design. The target population for the study comprised of 57 managers of selected hotels in Nyeri County. The list of hotels was obtained from Nyeri County Government which entailed all the licensed hotels operating in the County. The study adopted a semi-structured questionnaire as the main instrument for collecting primary data. The study analyzed data using SPSS version 21 and presented descriptive analysis results using mean and standard deviation. A bivariate linear regression model was used to test the significance of the effect of pricing strategy on the growth of selected hotels in Nyeri County.

$$Y= \beta_0 + \beta_1 X_1 + \varepsilon, \quad (1)$$

Where; Y=Growth of hotels, β_0 =Constant or coefficient of intercept, X_1= Pricing strategy and ε=Error term. The error term represent either all the factors that affect the dependent variable. A Cronbach alpha reliability coefficient of 0.83 was achieved.

4. Research findings

4.1. Response Rate

Data that was analyzed was obtained from fifty (50) respondents out of the targeted fifty seven (57) employees of the selected hotels in Nyeri County. Thus the response rate achieved was 87.7% which was very good according to (Mugenda and Mugenda, 2003).

4.2. Findings on Demographics

The results revealed that 26% of the respondents were aged below 35 years, those who were aged between 35-40 years were 38% while those who were aged between 40-45 years were 26% and those who were aged above 45 years were the minority, 10%. This indicates that majority of the employees working in hotels within Nyeri County in Kenya are aged between 35 and 45 years. The results indicate 6% have hotels employees had worked for less than 3 years, 72% of the respondents indicated that they had worked for between 3 and 6 years while 14% indicated that they had worked for between 6 and 9 years and those who had worked for more than 10 years were 8%. This implies that majority of the respondents had an understanding on the pricing strategies adopted by hotels. Finally, the results indicate that 12% had certificate, 68% of the respondents had diploma while 20% had bachelor degree.

The finding of the study further indicates that slightly above half of the staff working with the selected hotels were diploma holders while slightly below a quarter being bachelor degree holders. The findings showed that 68.0% of the respondents indicated that prices were affordable, 16% unaffordable, 12% very affordable while 12% said that the prices were very unaffordable. This indicated that prices of products of selected hotels in relation to competition pricing were affordable. According to Singh and Krakover (2013), the capability of any given business to charge superior prices for superior quality is dependent on the easiness with which customers can establish the products quality. The results on price changes frequency showed that 52.0% said that the frequency of changing the prices of products is often while 28.0% and 20.0% said that the prices were changes rarely and very often respectively. The finding of the study that Hotels review their prices often concurs with Fyall and Garrod (2005), who concluded that price is the mainly flexible element of the marketing mix, the only element that produces revenue and it can be changed quickly.

Table 1. Preliminary Findings on Demographics

Respondents Characteristics	Category	Results (%)
Age of Respondents	Below 35 years	26%
	Between 35-40 years	38%
	Between 40-45 years	26%
	Above 45 years	10%
Work experience	Less than 3 years	6%
	Between 3-6 years	72%
	Between 6-9 years	14%

Respondents Characteristics	Category	Results (%)
	Above 10 years	8%
Level of Education	Certificate	12%
	Diploma	68%
	Degree	20%
Prices of products	Very affordable	12%
	Affordable	68%
	Unaffordable	16%
	Very unaffordable	4%
Price Changes Frequency	Very often	20%
	Often	52%
	Rarely	28%

4.3. Influence of Product Pricing on Growth of Selected Hotels in Nyeri County

The study sought to establish how the respondents would rate the effect of pricing various products on growth of the selected hotels in Nyeri County. The engaged respondents were required to rate each factors in a scale of one to five. Descriptive statistics were generated using SPSS as indicated by Table 1.2 and results were discussed

Table 2. Descriptive Statistics on Price and Hotel Growth

Price and organization growth	Mean	Std Dev
The prices of standard lunch affects growth of hotels	3.34	1.59
The prices of beverages affects growth of hotels	3.58	1.60
The prices of breakfast influence growth of hotels	3.46	1.60
The prices of rooms affects growth of hotels	4.16	1.31

As shown in Table 2, the study revealed that prices of hotel rooms greatly affect growth of hotels having a mean score of 4.16 followed by prices of beverages with a mean score of 3.58. The prices of breakfast recorded a mean score of 3.46 while prices of standard lunch had a mean score of 3.34. The findings of the study are that growth of hotels mainly relies on prices of rooms, beverages, breakfast and standard supports earlier study by Markgraf (2015), who found out that the price charged should match the product. Devashish (2011) concluded that the price strategy not only includes the actual price that the institution charges but also includes discounted price as well as volume discounts for bundled products. Kamau, Waweru, Lewa and Misiko (2015), stated that there are different pricing strategies which include price skimming whereby hotels charge the highest price likely that customers who most desire the product being offered will pay for it. They draw market segments which are more concerned with quality, uniqueness as well as status. They also indicated that the pricing of market penetration is intended to confine market share by incoming the existing market with a low price in relation to the competition to attract customers. According to Singh and Krakover (2013), when customers are uncertain on quality they are likely to use price as a pointer of quality in most cases. This could therefore propose, that a relationship between price and quality whereby apparent quality absolutely manipulates price.

4.4. Growth of Selected Hotels in Nyeri County

The researcher sought to know how the respondent would rate the growth of hotels in Nyeri County. The results are as indicated on Table 3.

Table 3. Rate of Growth of the Hotel for Last Five Years

Growth Level	Frequency (n)	Percent (%)
No growth	11	22
Slight growth	26	52
Moderate growth	8	16
Rapid growth	5	10
Total	**50**	**100**

As shown in Table 3, 22.0% indicated that there has been no growth for the last five years, 52.0% said that there has been slight growth, 16% moderate growth while 10.0% said that there has been rapid growth of hotels for the last five years. The findings of the study revealed that the growth of hotels in Nyeri County has been very minimal if any for the last five years.

Table 4. Growth Variables of Selected Hotels in Nyeri County

Growth Measure	Mean	Std Dev
Number of loyal customers influence growth of hotel	3.3920	1.17731
Sales volume influence growth of hotel	4.2520	.76964

Number of loyal customers and sales volume were specific variables the sought to establish their impact on the growth of selected Hotels in Nyeri County. The findings on Table 4 revealed that growth of hotels is greatly affected by sales volume with a mean score of 4.25 while number of loyal customers had a mean score of 3.39. This implies that hotels should embark on strategizing on how to increase sales revenue and repeat sales in order to enhance growth.

4.5. Bivariate Linear Regression Results

Bivariate linear regression analysis was done to determine the effect pricing strategy on the Growth of Selected Hotels in Nyeri County.

Table 5. Model Summary of Price and Growth

Model	R	R- Square	Adjusted R Square	Std. Error of the Estimate
1	.377	.142	.124	1.16802

a. Predictors: (Constant), Price

The model summary regression results showed that R-value was 0.377 signifying that a correlation exists between pricing strategy and hotel growth in Nyeri County. The R- Squared (R^2) value of 0.142 indicates that aproximatelly14.2 percent of the hotels growth in Nyeri County is explained by pricing strategy. This finding assert earlier study by Howard and James (2013), who found out that there was positive correlation between penetration pricing strategy and market performance of a company.

Table 6. ANOVA for pricing Strategy and growth of Selected Hotels in Nyeri County

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	10.835	1	10.835	7.942	.007
	Residual	65.485	48	1.364		
1	Total	76.320	49			

a. Dependent Variable: Growth of selected hotels
b. Predictors: (Constant), Price

ANOVA results showed that the model was significant with the F ratio = 7.942 at p value 0.007 < 0.05. This is an indication that pricing strategy has a significant effect on hotel growth in Nyeri County. Growth is a progressive measure towards market share and also performance of a hotel. Based on this fact, the finding of the study support Lagesand Montgomery (2005), who found out that pricing strategies influence market share and performance of soft drink industry.

Table 7. Regression Coefficients of Pricing Strategy and Hotel Growth

	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
(Constant)	1.956	.552		3.544	.001
Price	.399	.142	.377	2.818	.007

a. Dependent Variable: Growth of selected hotels

The finding from Bivariate Linear Regression coefficient Table 7 show that pricing Strategy had positive and significant effect on hotels growth in Nyeri County with β = 0.399 at p value 0.007 which is less than 0.05. The optimal model thus is as indicated is **Y= 1.956 + 0.399 Price + ε.** The findings of this study that price influence an organization growth to a great extent reaffirming a study by Rogerson (2013) who stated that price is the value attached to a product and it's the only element of the marketing mix that makes profit for the company. He noted that changing the price of a product in relation to competitors prices has a major influence on the marketing strategy because it affects demand of a product and hence the sales. Rogerson (2013) added that however attractively made and packaged a product is, its demand will not be high if the prices are unattractive relative to competitors prices.

Summary discussion

The study explored the relationship between pricing strategy and hotels growth in Nyeri County. The finding of the study revealed that there is positive correlation between pricing strategy and hotels growth in Nyeri County (R=0.377). This indicates that changes in pricing depending on market analysis and competitors intelligent can play a major role in fostering growth of Hotels in Nyeri County. Further, pricing strategy had positive and significant effect on hotels growth in Nyeri County with $\beta = 0.399$ at p value 0.007 which is less than 0.05. The finding that pricing strategy is a factor that effect hotels growth in Nyeri County supports Griffith(2004), who concluded that adjustment of prices to market situation have positive influence on the market share and adaption of pricing strategy would increase the market share. Ong'ong'a (2014), the failure to adjust price to account for changes in market conditions, such as the appearance of a new competitor who offers much lower prices, may cause a firm to lose customers. Not taking the time to conduct thorough research before developing pricing strategy can result in a marketing campaign that misses the mark and wastes valuable marketing dollars.

Descriptive statistical analysis revealed that prices of rooms, beverages, breakfast and standard affect growth of selected hotels in Nyeri County reaffirm earlier finding by Lagesand Montgomery (2005), who noted that pricing strategies influence market share in soft drink industry. Griffith (2004), also found out that consumers are willing to pay an extra amount of money when they are assured of qualities in the product. These findings contradict Myers (2001), who noted that consumers have different perception of the products depending on the price mainly because a high price may cause negative feelings about products, and also a low price can be misleading on other products features such as quality. Therefore Hotels should conduct frequent market analysis before adjusting their prices.

5. Conclusions

The general aim of the study was to find out the effects of pricing strategy on the growth of hotels in Nyeri County, Kenya. Pricing strategy was found to be one of the major factors affecting growth of hotels in Nyeri County. The results of the study revealed that there is a positive as well as statistically significant relationship between pricing strategy and growth of hotels in Nyeri County. The prices of rooms, beverages, breakfast and standard lunch were prices found to have greater impact on growth of hotels. Generally, the price of hotels products and services depends on many factors such as the time of year whether its peak season or off peak seasons, the physical specifications of the room such as room size, room service among others, the specification of the hotel including location, star rating, hotel brands, amenities among others, the market competitors prices, the duration of stay, the rate of occupancy, and the number and type of guests. Therefore hotels should review their pricing strategies and policy to ensure that they offer different prices for their products based on the quality of the products and ensure that price changes is effectively communicated to the potential customers although such changes should not be very often. The rationale is that pricing strategy is economically growth elastic.

6. Recommendations

The finding revealed that pricing strategy had positive and significant effect on growth of hotels in Nyeri County, Kenya. Following this finding, this study recommends that the management of hotels to should frequently review their prices without comprising quality based on periodical market analysis. This study makes a significant contribution in our understanding of the effect of pricing strategies on growth of hotels in rural Central. It further brings out the specific parameters of price that have a major impact on hotel growth in Nyeri County. A similar study on hotels in Kenya should be put into consideration focusing on other marketing mix variables such as promotion, place and product to establish the effect on growth of hotels.

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