

## **Strategic Positioning and Profitability of Savings and Credit Co-Operative Societies in Western Kenya**

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**Abstract:** *At microeconomic level, performance is the direct result of managing various economic resources and of their efficient use within operational, investment and financing activities. To optimize economic results, a special attention should be given to the proper grounding of managerial decisions. These should be based on complex information regarding the evolution of all types of activities within the company. Several SACCOs today are facing a myriad of challenges that have threatened their future survivals. Recently, SACCOs have been engaged in many scandals since the beginning of the new millennium. This study therefore, endeavoured to investigate the effects of strategic positioning on profitability of selected Savings and Credit Co-operative societies in Western Kenya. The specific objective of the study was to establish the effects of pricing strategy on profitability of SACCOs. The study was anchored on the conceptual framework. The study employed descriptive survey and correlational research designs. The target population of the research consisted of 6,575 members from the 200 selected SACCOs in Western Region. The sample size of 109 employees from 200 selected SACCOs was obtained using coefficient of variation. The board members, staff from SACCOs and officials from the Ministry of Co-Operatives were also targeted. Stratified sampling, sample random and purposive sampling techniques were used to select the respondents. The primary data was collected by use of the questionnaire. Descriptive statistics and inferential statistics were used to analyze the collected data. Then data analyzed was presented in frequency tables. The results revealed that pricing strategy had a statistically significant positive effect on profitability of SACCOs ( $\beta = 0.671$  and  $p > 0.05$ ). It was concluded that pricing strategy has significant effect on profitability of SACCOs. It was recommended that SACCO should combine various pricing strategy such as price signaling, flexible price strategies and customer value pricing to ensure sustainability and survival of SACCOs in highly competitive financial market.*

**Key Words:** *Pricing Strategy, Profitability, Strategic Positioning, SACCO*

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### **I. Introduction**

The history of SACCOS in the world can be traced based on two origins of modern cooperation. The first modern cooperation emerged in certain working class environments in European industrial cities in 1840s, particularly in Great Britain and France (Churk, 2015). These pioneers invented models of the consumer and labor cooperative that defend and promote the interest of working class in the face of the social disasters endangered by the Industrial Revolution (Assenga, 2008). The second generation of the pioneers of modern cooperation emerged in certain European rural environments in the late 19th century. The countryside was economically out of sync with the industrial cities; agricultural cooperatives enabled families of farmers and livestock raisers to organize on their own supply system of agricultural inputs and market their products and no longer depend on the merchants and businessmen in the cities (Assenga, 2008). Also the SACCOS enabled them to no longer depend on money lenders (usurers) and to find the credit necessary to modernize their agricultural operations (MUCCoBS, 2005). As the competition in Savings and Credit Co-operative societies (SACCOs) escalates, most of them try to introduce new services to attract more customers (Schellhase et al., 2000). They also try to reconsider their positioning strategies to improve their market share, increase their profitability. According to Marks and Albers (2001), the more aggressive product positioning behavior from attempts to reduce profit differences relative to competitors because profit asymmetry happens in many market settings, it is an essential factor to consider in making product positioning decisions in a competitive environment.

Pricing strategies are the means by which the firm's pricing objectives are to be achieved and to formulate them; a manager needs to be guided by the internal and external conditions faced by the firm to select the best choice of strategies. Cravens (1997) argues that when setting pricing strategies, a market oriented firm would be expected to factor all the pricing elements into the decision process and still deliver value to the customer. In the end the price strategy must accomplish its objectives without negatively impacting customer

expectation and perception. Kotler (2006) and Hoffman et al. (2002) note that many companies do not handle pricing well when setting strategies. They simply determine their costs and take their industry's traditional margins. Other common mistakes are failure to revise price often enough to capitalize on market changes, setting price independently from the rest of the marketing mix rather than as an intrinsic element of market-positioning strategy, and failure to vary price enough for different product items, market segments, distribution channels, and purchase occasions. Firms offering undifferentiated products and services need to monitor what competitors are charging and price accordingly as seen in competitor based pricing strategies. When the firms offerings are differentiated in quality and costs, value pricing strategies are applicable where the pricing refers to the value perceived by the customers since no customer will pay more for a product or service than the perceived value.

## **II. Statement Of The Problem**

Several SACCOs today are facing a myriad of challenges that have threatened their future survivals. Recently, SACCOs has been engaged in many scandals since the beginning of the new millennium. These scandals have resulted in a loss of trust that SACCOs had with stakeholders such as customers, employees, the public, governments and investors. Companies' market dominance and profitability has been declining over the recent years as indicated in their financial results. The firms have only concentrated on the profits and performance of employees and this has necessitated other challenges that have come from the regulation of the industry prices of products by the government and the threat of entry and mergers of local firms with international players and this combined has increased business risk level of the firms. With the increased level of competition, local companies have had to strategically position and aligning itself to capture new markets or retain its existing market share. It is against this background that this study sought to establish the effects of pricing strategy on profitability of SACCOs.

## **III. Pricing Theory**

The pricing theory shows that a profit can be obtained by buying the asset on the market at lower price and simultaneously selling the same asset on the market with the higher price without necessarily using any actual investment. In this case, the investors make exploitation on them, and as time goes by, the price of the assets changes up to equilibrium again when there are no more positive returns between the same assets and the possibility of profiting from arbitrage is gone (Levy & Post, 2005; Rorden & Kristofer, 2010). In this study, strategic positioning indicators like branding strategy, pricing strategy, customer service and technological capabilities were used to determine their effect on the profitability of the SACCOs in Western Kenya.

## **IV. Pricing Strategy And Profitability Of Saccos**

Pricing strategy is also referred to as low cost leadership strategy. According to Hill and Jones, (2002) firm pursuing a cost-leadership strategy attempts to gain a competitive advantage primarily by reducing its economic costs below its competitors. If cost-leadership strategies can be implemented by numerous firms in an industry, or if no firms face a cost disadvantage in imitating a cost-leadership strategy, then being a cost leader does not generate a sustained competitive advantage for a firm. Hill and Jones, (2002) further assert that the ability of a valuable cost-leadership competitive strategy to generate a sustained competitive advantage depends on that strategy being rare and costly to imitate. One of the most cited sources of cost advantage for a firm is its size. There is a relationship between firm size measured in terms of volume of production - and costs - measured in terms of average costs per unit of production (Fratto, 2006).

Most scholars and practitioners share a common perspective on the issue of pricing that pricing should be handled as a strategic effort. They stress the importance of aligning pricing strategy with overall corporate strategy and marketing strategy Nagle (1987) and Myers (2002). This therefore implies that firms are likely to employ diverse strategies given the different working situations. Cravens (1997) however notes that pricing is becoming increasingly challenging for many firms because of relying on factors that are difficult to analyze and articulate i.e. demand, competition, costs, deregulation, informed buyers and slow market growth, The fact that price may also influence on buyers value positioning and be used as a measure of product quality then justifies the need for a well-crafted pricing strategy.

Several authors point out the importance of aligning pricing strategy to company's overall profitability goal. This alignment leads to consistency in the message delivered through marketing mix about the company and the product to the customers (Nagle, 1987). Cravens (1997) recognise that managers use their pricing strategies to achieve specific objectives and profitability. Kibera (1988) notes that pricing decisions are influenced by profitability goals which are guided by the increase or maintenance of largest possible contribution or gross profit, the achievement of target return on investment, generation of desired cash flow,

maximizing revenue by varying prices to target segments over time and covering of costs. The pricing strategies are not mutually exclusive and therefore a firm can employ several types based on their situation.

Campbell-Hunt notes that Wal-Mart Stores Inc. has been successful using its strategy of everyday low prices to attract. The idea of everyday low prices is to offer products at a cheaper rate than competitors on a consistent basis, rather than relying on sales. Wal-Mart is able to achieve this due to its large scale and efficient supply chain. It sources products from cheap domestic suppliers and from low-wage foreign markets. This allows the company to sell its items at low prices and to profit off thin margins at a high volume. He further avers that McDonald's has been extremely successful with this strategy by offering basic fast-food meals at low prices. He observes that McDonald's Restaurant is able to keep prices low through a division of labor that allows them to hire and train inexperienced employees rather than trained cooks. It also relies on few managers who typically earn higher wages. These staff savings allow the company to offer its foods for bargain prices. While the Swedish furniture retailer Ikea revolutionized the furniture industry by offering cheap but stylish furniture. He argues that Ikea is able to keep its prices low by sourcing its products in low-wage countries and by offering a very basic level of service (Campbell-Hunt, 2005).

## V. Methods

This study employed descriptive survey and correlational research designs. The target population of the research consisted of 6,575 members from the 107 selected SACCOs in Western Region (SASRA, 2016). Simple random sampling was used to come up with the required sample size for the employees who participated in the study. Purposive sampling was used to select the 10 managers of the SACCOs and seven (7) officials from the Ministry of Co-operatives. The sample of 32 SACCOs was determined by use of Kombo and Tromp (2006) recommendation that a sample size of 10% to 30% was representative enough for the study population. Therefore, the sample size 32 SACCOs was arrived at on the basis of 30% ( $30/100 \times 107 \approx 32$ ). The sample size of 109 employees from 6,575 members was obtained using coefficient of variation (Nassiuma, 2000). Primary data was collected through the use of key informant method and a self-administered questionnaire. The secondary data sources included information from the existing records at the SACCOs, which assisted the researcher with detailed information to help verify and cross-examine the accuracy and reliability of the answers obtained from the primary data. The study ensured both content and construct validity were achieved. This was also aided by receiving support from the experts on the construction of the questionnaire. Reliability test was carried out and the results showed that a Cronbach alpha of coefficient of 0.877 was attained implying that the research instruments were reliable. Analysis involved the use of both descriptive and inferential statistics. Descriptive statistics used mainly the means and standard deviations, while inferential statistics employed regression and correlation analyses. Inferential statistics were used to test research hypotheses at p-value of 5% (0.05) at confidence interval of 95%.

## VI. Findings And Discussions

The second objective was to establish the effect of pricing strategy on profitability of SACCOs. Several questions were asked regarding pricing strategy. The study established from respondents whether the following statements play a strategic role in pricing strategy; market price, price cutting, cost leadership, subsidized price, market skimming high charges and Sacco use both price lining and smart pricing. The results were as shown in table 4.10 below

**Table 4.9: Descriptive Statistics of Pricing Strategy**

Descriptive Statistics		
Variables	Mean	Std. Deviation
Market price	3.8571	0.22025
Price cutting	3.9429	0.03616
cost leadership	3.8857	0.18739
subsidized price	4.0000	0.93026
Market skimming high charges	4.0190	0.97054
Sacco uses both price lining and smart pricing	4.0381	0.07349
<b>Overall Mean And Standard Deviation</b>	<b>3.9571</b>	<b>0.403015</b>

Source: Research data 2016

The results in Table 4.9 show the mean and standard deviation of pricing strategy. The results indicate that market price had a mean of 3.8571 and standard deviation of 0.22025, price cutting had a mean of 3.9429 and standard deviation of 0.03616, cost leadership had mean of 3.8857 and standard deviation of 0.18739, subsidized price had mean of 4 and standard deviation of 0.93026, market skimming high charges had mean of 4.0190 and standard deviation of 0.97054 while the last question on SACCOs uses both price lining and smart pricing had a mean of 4.0381 and standard deviation of 0.07349. The overall mean of pricing strategy was

3.9571 while the overall standard deviation was 0.403015. The mean value was between 3 and 4. When rounded off, it is 4, implying that the respondents were in agreement with the statements concerning pricing strategy. Given that the standard deviation was a figure between 0 and 1 further confirms that their response is true and can be trusted. In order to establish the effect of pricing strategy on profitability of SACCOs, the study set out the following null hypothesis:  $H_0$ : Pricing strategy has no significant effect on profitability of SACCOs.

In order to establish the effect of pricing strategy on profitability of SACCOs, aggregate mean score, the aggregate mean score of profitability were regressed against the aggregate mean score of pricing strategy and the results were as shown in Table 4.10.

**Table 4.10: Goodness of fit Analysis of pricing strategy and profitability**

Sample size	R (Beta)	R Square	Adjusted R <sup>2</sup>	Std. Error of the Estimate	Sig
43	0.671	0.559	0.516	0.132	0.003

Source; Research data, 2016

According to the regression summary model Table 4.11 the regression results reveal that pricing strategy overall effect on profitability was statistically significant (overall p-value = 0.003). The results show that pricing strategy had a positive and statistically significant effect on profitability ( $\beta = 0.671$  and p-value = 0.003).

**Table 4.11: Regression Results for Pricing Strategy on Profitability**

<b>Overall significance ANOVA (F-test) of pricing strategy on profitability</b>					
	Sum of Squares	Degrees of Freedom	Mean Square	F	Significance (p-value)
Regression	2.282	2	2.018	64.628	0.003
Residual	2.235	43	0.112		
Total	4.317	44			

  

<b>Regression of pricing strategy on profitability</b>					
	Unstandardized Coefficients	Standardized Coefficients			Significance (p-value)
	Reg. coeff. b	Std. Error	Beta (R)	t	
(Constant)	1.384	1.299		16.153	0.008
Pricing strategy	0.762	0.779	0.671	2.289	0.000

Source; Research data, 2016

Profitability of SACCOs largely depends on pricing strategy since 51.6 percent of its profitability was explained by pricing strategy (R squared = 0.516). The study therefore rejected the null hypothesis and concluded that pricing strategy has a statistically significant positive effect on profitability of SACCOs.

The results show that pricing strategy had a statistically significant positive effect on profitability ( $\beta = 0.671$  and  $p > 0.05$ ). Profitability of SACCOs largely depends on pricing strategy since 51.6 percent of its profitability was explained by pricing strategy (R squared = 0.516). The null hypothesis was therefore rejected and it was illustrated that pricing strategy had a positive and statistically significant effect on profitability of SACCOs. The findings were in line with those of Campbell-Hunt (2005) who argues that the cost leadership strategy can be highly successful. He observes that it involves marketing a company as the cheapest source for a good or service. This means that a company needs to minimize its costs and pass the savings on to its customers. In his study he looked at following firms that have employed this strategy successfully, in order see how it can be beneficial to a business: Wal-Mart Stores Inc., McDonald, Ikea and Southwest Airlines.

## V. Conclusion And Recommendation

The study that established that pricing strategy had a statistically significant positive effect on profitability of SACCOs. This means that a company needs to minimize its costs and pass the savings on to its customers. By employing pricing strategy in SACCOs, the profitability of SACCOs is achieved. While noting the turbulent environments and increased globalized competition, and the critical role played by pricing in profitability it is necessary that Savings and Credit Co-operative societies managers put more emphasize in improving the pricing decision, understanding the underlying situations and the intended pricing objectives so that they can settle on the right combination of pricing strategies. Based on the study findings, such combination should include the strategies that are associated with high profitability like cost plus pricing, price signalling and flexible pricing strategies, customer value pricing and break even pricing. This will ensure survival of the business as they are able to cater for the need of various clients as most of SACCOs have customer base which is not homogeneous.

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