Evaluation of Pricing Strategies Used by Informal Retail Traders in Gweru CBD Area

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Abstract
During the period 2006 to 2008 the economy of Zimbabwe experienced economic turbulence resulting in many large and small companies closing. The effect was an increase in unemployment levels to levels close to 80%. In an effort to sustain families, and to supplement incomes many people turned to informal sector trading because of the ease of entry into the sector. This research looks at strategies used by the informal trades to wade completion. The results indicate that the majority use cost-based pricing model, it was also noted that the exit levels are high as are the entry level because money was not being accounted for and sometimes used for other unrelated expenses. This is because the majority of the players in the informal sector are engaging in the trade for survival purposes in a constrained economy. We end the discourse by recommending that the sector has potential for growth but training is needed and proper structures should be put in place.

Keywords: Pricing, strategies, informal, retail traders

Overview
This research was carried out in the backdrop of the transition from the Zimbabwean dollar to multi currency system which was marred by previous periods of high inflation and unstable exchange rates

necessitating frequent changes in prices in order to maintain stability in foreign currency earnings. The previous inflationary period created a mentality where individuals and companies would always charge very high prices to mitigate against unpredictable foreign currency exchange rates given that the source markets were either South Africa or Botswana. Unfortunately, Zimbabwe had taken considerable time to resolve this problem, as a result charging high prices almost became a culture, a culture which persists even today despite the fact that we are now using a multi-currency system. The research assesses whether the high price culture is a pull factor in the growth of the sector or there are other factors driving the growth of the sector. For the purposes of this research the informal sector as activities are refered as those enterprises not recorded in the national accounts and not subject to formal rules of contract, licences, labour inspection and taxation. Most of the activities are characterised in terms of ease of market entry, small scale of operation, labour intensity and market that is not regulated and very competitive. In the context of these study they are one-person operations and tend rely heavily on the family unit for labour and specific roles which may involve children and older relatives.

This research intended to establish the pricing practices of informal traders in Zimbabwe with a view to helping them improve their pricing strategies and get better returns, with the following objectives:

- To establish how prices are set in the informal retail sector
- To establish whether players in the sector have any spelt out business objectives;
- To establish the relationship between pricing strategies used and business objectives employed
- To establish the influence of environmental factors on pricing decision.

The research is guided by the following hypotheses

H_0 There is no relationship between personal objectives and pricing objectives

H_1 There is a relationship between pricing objectives and pricing strategy

Price is the value charged on goods and services that are offered for sale and is a source of revenue. Price represents a source of competitive advantage among other factors, for an organisation and the research sought to establish how it is viewed by players in the informal retail sector in Gweru and by extension, the country at large.

According to Hinterhubber (2006), and Indounas (2009), there are three pricing strategies and these include: Cost based pricing, Competition-based pricing and customer-value based pricing. cost based pricing according to Avlonitis and Indounas (2006) has five sub-components which include cost-plus method, target return pricing, break-even analysis, contribution analysis and marginal pricing. From the viewpoint of the researchers, cost plus pricing strategy is the one most accessible to the informal traders in the retail sector in Gweru mainly because it is simple to understand and apply. The method is also classified according to Duke (1994) as a linear method. In this context, the price charged is a reflection on company objective, competitive situation and consumer characteristics. While this may indeed be true our concern is on whether individuals in the informal sector have established objectives that factored into the prices that are charged in the sector and also how this may be achieved. In terms of the linear pricing methods, the size of mark-up is in itself a translation of an objective into the mark-up itself. To that point, the size of mark-up as represented by the figures quoted by players in the sector of between 100% and 300% or even more, are too exegerated. The researchers' concern here is on how they lead to the attainment of objectives, given their transmission into very high prices, which are discouraging and would lead to lower sales and also a slower movement of merchandise. Such a result is also supported by the fact that the majority of the consumers have little income given that most employers in Gweru are retailers where incomes are generally low and this also applies for civil servants whose incomes range between US$120 and USS$250 a month as at end of December 2010. Such a scenario is not good for business generally and worse still where prices are seen as too high as appears to be the case in the informal retail sector. According to Duke (1994) the above pricing strategy represents conventional method of pricing.Competitive pricing strategy on the other hand is a pricing strategy requiring players to factor in anticipated movements by other players on price without ignoring costs, as discussed above. Such movements have therefore to be factored into the price that a player is going to charge at the end of the day. To that end, one has to monitor prices that are charged by other players in the informal sector as well as formal sector in order to maintain parity and hence attract customers. In the case of the informal retail sector, they appear to be an element of collusion with regard to list prices although there is room for bargaining, which consumers can use to reduce the price by a dollar or two.

The last strategy is customer-value based pricing. Yan (2009) agrees with Hinterhubber (2008) in that despite the fact that the method is very attractive, its application is very limited. Yan (2009) noted that its application is beset by a number of challenges which include: difficulties in making value assessments, difficulties with market segmentation, difficulties with sales force management; and difficulties with senior management support.

It is important to note that there are other factors that affect pricing strategy and According to Duke (1994) these factors fall into three broad categories which include among others, consumer characteristics, firm objectives and competition factors. According to Duke (1994) organisational objectives represent what the organisation was established to achieve and they range from profit maximisation, sales volumes, market share, target return on investment level and survival. This view is also shared by Day (1984) who classified growth objectives as sales volume or profit. At company level, linear model referred to earlier on applies as the transmission mode where a linear relationship is established between corporate objectives and the prices that are charged, (Duke 1994). Prices may also have differentiation as an objective where firms try to differentiate their products on the basis of price charged and we also wonder on the extent to which this can be applied in the informal retail sector.

Avlonitis and Indounas (2006) also examine at competitor characteristics which include sensitivity to competitor movements on price and such other important changes by players in the industry. The players in the informal retail sector are mainly individuals whose financial resources are limited to borrowing on the informal financial sector given the loss of confidence on the banking industry, where interest rates range from 50% to 100% and this in itself limits their capacity to react or take preemptive actions. The quantities they buy are also limited to permit economies of scale which can then be passed on in low prices and for that reason, prices tend to be uniform and steap. What seems to lack is capacity for pooling resources together to allow the player to then buy in large quantities and in so doing attain economies of scale in buying.

Research Methodology

The researchers used a mixed research design which involves both quantitative and qualitative designs. Questionnaires and interviews were used to solicit data from enterpreneurs in the informal retail industry. The population was defined as all traders who sale their merchandise at flea-markets as well as the main street during the weekend in Gweru. Judgemental sampling was used, a total of 100 questionnaires were sent out and 40 were successfully completed, giving a response rate of 40%. The data was then analysed using deductive and inductive analytical methods and the Chi-square tests were used to try and establish independence of views drawn from both the interviews and questionnaires earlier on referred to. The researchers tested the hypothesis that there was no relationship between individual objectives and pricing objectives. Inductive and deductive analytical techniques were used mainly because they helped to deduce meaning from statements given by the respondents which were then further tested for independence using the Chi-square tests. The researchers used judgmental sampling and this was because an assessment had to be made of capacity of respondents to tackle the questionnaire.

Data Presentation and Analysis

Data was collected from 100 respondents out of close to 400 players in the informal retail sector in Gweru, representing 40% of the sector. The researchers felt this sample was adequate mainly because the players are to a large extent similar as well as the customers that they serve, the products they sell are similar and so are the conditions under which they operate. Further, the source markets for their merchandise are also similar as shown by 85% of the players who indicated that they buy their merchandise from either South Africa or Botswana.

Table 1: Mutually exclusive responses on the relationship between business and pricing objectives

Response	Frequency	Percentage
Profit	16	40
Establish shop	17	42,5
Survive	7	17,5
Total	40	100

According to Table 1, 40% of respondents have profit as their objective while 42,5% have the establishment of a shop as their objective and from the researchers' view point, this is a growth strategy and so is the profit objective. According to Day (1984), organisations have three objectives which are growth, survival, and decline. The researchers then sought to establish whether there was a relationship between personal objectives and pricing objectives, the players set out for their businesses and the following results were obtained.

Table 2: Observed frequence for hypothesis testing

Pricing Strategy	**Pricing Objective**		
	Cost recovery	Meet competition	Total
Profit	16	0	16
Growth	17	0	17
Survival	0	7	7
Total	**33**	**7**	**40**

Table 3: Chi-square Calculations

Observed (O)	**Expected (E)**	$\frac{(O-E)^2}{E}$
16	13.2	0.05
0	2.8	1
17	14.03	0.05
0	2.98	1
0	5.78	1
7	1.23	0.05
X^2 Calculated		**3.14**

Degree of freedom = (3 – 1) (2 – 1) = 2

Using a 5% significance level, the X^2 statistics = 6.0.

Given that X^2 calculated is less than X^2 statistics, the null hypothesis is accepted and confirms that there is no relationship between business/ individual objectives and pricing objectives. This means that business objectives are not reflected in the pricing objectives and make it difficult therefore to achieve. To that point, we are inclined to conclude that players in the informal retail sector, do not sit down to think through their objectives before choosing their pricing objectives. They must always reflect on their personal or business objectives and then translate these into their pricing strategy. This, therefore, explains the fact that players have been in the industry for more than a decide and there is still nothing to show for such experience. These results show that there is no coordination between business objectives and operational objectives and this lack of coordination is reflected in the unrealistic prices that are set in the sectors which to the researchers do not encourage growth and even the survival of players. Personal objectives must be supported by realistic and meaningful pricing objectives which in turn inform pricing strategies to get the desired results. Anything short of this will yield mediocre results shows that players lack of business training in pricing decisions. To help address this shortcoming, we recommend that the players be given training on business management, which training should address all the important aspects of running a business which included among others, marketing, stock control, record keeping, strategic management, etc.

The researchers sought to establish individual objectives and the following was established;

Table 4: The Pricing strategy being used by informal traders

Response	Frequency	Percentage
Cost-based	21	54
Competitor based	8	21
Value based	6	15
Combined	4	10
Total	39	100

According to Table 4 the majority of players (54%) use cost-based pricing model, 15% value-based and 10% use combined pricing model where they look at costs, competitors, and value of the product to the customer in arriving at the price. All respondents indicated knowledge of pricing model they are using and as already alluded to cost of product is the most important factor in deciding on the price in line with also the concept of linearity model by Duke (1994). Although there were claims to using these models, it was observed that prices were subject to negotiations. Depending on demand patterns, traders could reduce prices to levels demanded by the customer or even reduce them as a strategy to raise money for meeting other expenditure requirements especially during periods when demand is low. This confirms Duke's (1994) view that retailers could make use of discounts as a measure to motivate movements in quantities sold. When traders were further probed on the reason for using a particular pricing model, the following results were then obtained:

Table 5: Response on pricing objectives of informal traders in Gweru

Response	Frequency	Percentage
To recover costs	33	85
To double original costs	0	0
To meet competition	6	15
Total	**39**	**100**

As can be seen in Table 5 above, the majority indicated as their objective for cost-based pricing model, being need to recover their costs while only 15% had competitors as their main objective. These results show that players in the sector are conscious of need to continue with their business and to achieve this costs must be recovered and to a large extent in conformity with the linearity model. Interviews also support the view that costs are at the centre stage of pricing model in the sector and to that point, the majority used mark-up of between 100% and 300% and to that point assuring themselves of not only recovering their costs but also of making a profit from which their families survive. In the face of the above results, the researchers sought to test the hypothesis that there is no relationship between pricing objective and pricing strategy used to achieve it given the low level of business training and knowledge amongst the players.

Table 6: Observed frequency on pricing objectives

Pricing Strategy	**Pricing Objective**		
	Cost recovery	Meet competition	Total
Cost-based	24	0	24
Competitor-based	7	3	10
value-based	8	0	8
Total	**39**	**3**	**42**

Although the survey had 40 respondance some candidates gave two pricing approaches making the total 42 which the researchers considered valid and where thus used for this research. this is indicative of a varied approach to pricing depending on the circumstances

Table 7: Expected Frequency on pricing objectives

Pricing Strategy	**Pricing Objective**		
	Cost recovery	**Meet competition**	**Total**
Cost-based3	22	2	24
Competitor-based	9	1	10
value-based	7	1	8
Total	**38**	**4**	**42**

Table 9: Chi-square Calculation

Observed (O)	**Expected (E)**	$\frac{(O-E)^2}{E}$
24	22	0.18
8	7	0.14
7	9	0.44
0	2	2
0	1	1
3	1	4
X^2 **Calculated**		**7.76**

Degrees of freedom (3 – 1)(2 – 1) = 2
Using a 5% significance level, X^2 statistics = 6.0
Since X^2 calculated is greater than X^2 statistics, the null hypothesis is rejected in favour of the alternative hypothesis which is to the effect that

there is a relationship between the price objective and the strategy used and thus one can therefore say that the majority of respondents deliberately select their price strategy as a way of achieving their price objective which is that of not only recovering their costs but also achieve a high level of profit as represented by their high mark-ups which are themselves based on the costs of inputs in this case the cost of merchandise and transport as well as rentals for space from both the flea-market owners as well as the City Council during weekends on the Main Street market. The only weakness with their costing is that they do not provide for a salary for themselves save in cases where they hire extra hands in the case of those who are formally employed elsewhere. This also establishes a strong relationship between the pricing objective and the strategies that are used to achieve the same. This also fit very well with linear model by Duke (1994).

The researchers further probed the players on their sources of merchandise and the following results were obtained:

Table 9: Source markets for merchandise in the informal retail sector in Gweru

Response	**Frequency**	**Percentage**
South Africa	11	27,5
Botswana	6	15
Both	15	37,5
Dubai	1	2,5
All the three	2	5
Others	5	12,5
Total	**40**	**100**

As can be seen from the Table the 9 majority of players (37.5%) source their merchandise from both South Africa and Botswana while 27.5% source from South Africa only and 15% from Botswana giving the two source markets a total of 80% of the players. Dubai and the other two source markets attract 7.5% of players leaving 12.5% for others. These other source markets include among others, Harare, Mutare, Namibia, and Mozambique. In the eyes of the researchers, the 80% who source from both South Africa and Botswana can help these players achieve economies of scale in transportation where only one or two individuals can be sent to do the purchases for all players and if merchandise is also similar, achieve economies of scale in buying by combining their orders and help them obtain meaningful discounts. This arrangement can thus help them reduce costs and in the process improve their turnover by charging lower prices and also where they choose not to pass the saving to consumers, enjoy improved profitability as a result of reduced cost of sourcing. It is our view that given the small size of quantities that are bought in each individual trip, such an arrangement will aid the savings in transportation since the source markets are the same for all players and also given that they are all from Gweru and operating on the same markets and to that point already know each other or where this may not currently be so, form alliances for those purposes.

The above view is premised on the responses obtained when asked about quantities that are bought on each trip and the results are as presented in Table 10 below:

Table 10: Quantities purchased per trip by traders

Response	Frequency	Percentage
1 – 4	7	17,5
5 – 19	16	40
20 or more	10	25
No response	7	17,5
Total	**40**	**100**

As indicated in Table 10 above, 40% buy between 5 or more items per trip and it was observed that these are specialists in clothing merchandise and so is also 25% of those who buy 20 or more units of a merchandise category per trip giving a total of 65%. The 17,5% which did not respond on quantities, was also noted to be in the clothing category and one can make an assumption that their quantities also fall in the range of between 5 or more category. These large quantities appear to be a direct result of the lower cost of merchandise which, according to response on values ranges from $1.00 to $15.00 per unit. The other 17,5% is mainly made up of players who deal in electrical products and these also tend to be slightly more expensive compared to clothing merchandise. These results are to an extent supportive of our earlier observation that players form alliances for purposes of gaining economies of scale in buying and transportation. Container loads of such items can be bought and this reduces the cost per unit substantially and also frequency of trips to secure merchandise. Such alliances can even allow the informal traders to establish retail outlets by pooling their resources together and in the process transform from informal to formal retailers.

When players were further asked about factors that influence pricing decision apart from costs, the following results were obtained:

Table 11: Factors that influence pricing decision of informal traders

Response	**Frequency**	**Percentage**
Time of month	12	30
Number of Customers	6	15
Place from where one is selling	5	12,5
All three factors	13	32,5
Other factors	4	10
Total	**40**	**100**

Table 11 above shows that prices on the informal market are not fixed but rather they move from the least price and this is influenced by a number of factors among which include time of the month, demand, place where one is selling from as well as age of stock and number of such stock. From the results in the table, it can be shown that the discounts are both random as well as periodic. According to Duke (1994) periodic discounts are timed whereas random depends on the situation facing the organisation and are unpredictable and is thus influenced by number of customers (demand) and this accounts for 15% of player price variation as well as 32,5% of players who indicated that their price variation is influenced by all three factors of demand, location from where one will be selling and time of month giving a total of 47,5% of demand related movements. However, given that time of month usually has a bearing on demand, we are also persuaded to conclude that such demand is predictable and so are the price variations. If this line of thinking is to be sustained, we are persuaded to conclude that the discounts used by informal retailers in Gweru are periodic and not random. When the researchers engaged some of the retailers in discussion as a result of this implication, it was indicated that reductions in prices depend on the customer's ability to negotiate and also knowledge about price ruling on the market on a particular date. Further, some players indicated also that the frequency with which they do business with a particular customer may persuade them to discount. These two positions create room for random discounts and to that point supports the views by Duke (1994) that retailers use both random and periodic discounts in carrying out their businesses. Further, we are also persuaded to conclude that the strategies that are used in retailing are all the same regardless of whether one is operating formally or informally. To that end, we can thus also conclude that the informal sector is a breeding ground for formal retailers and must therefore be helped where possible, formalise their operations because of the experience they already have although resources appear to be their water-loo. The capacity for price variations exist in the sector is to the researchers give the lack of economies of scale but appear to be explained by the high mark-ups that are charged as reflected in the table below:

Table 12: Response on size of mark-up charged by informal traders

Response	Frequency	Percentage
50.00%	22	55
100.00%	15	37,5
200% or more	3	7,5
Total	**40**	**100**

As can be seen from table 12 above, mark-ups in the informal retail sector range from 50% to 200% or more. The majority however, charge mark-ups of 50% and this represents 55% of the players while 37.5% of players charge mark-ups of up to 100% and these figures contrast strongly with mark-up in the formal sector of between 10% and 30%. In our view these mark-ups are justified by lack of economies of scale given that a player buys just a few items per shopping trip and linked to that are also the high costs of transportation, accommodation, duty and food whose value average $80.00 per trip for those sourcing their merchandise from outside the country. In the face of this, high costs involved in acquiring merchandise, given that 85% of respondents buy from South Africa and Botswana, the researchers sought to establish the dollar value of merchandise for each trip and the following responses were received;

Table 13: The dollar value of each trip

Response	Frequency	Percentage
$100 - $299	16	40
$300 - $599	17	42,5
$600 or more	7	17,5
Total	**40**	**100**

As can be seen from Table 13 the majority of players make orders of between $100 to $599 with only 17.5% of players making orders of more than $600. The average size of each order is therefore in our view $300. Given the related costs of making these orders of $80.00, it means that for each $1.00 spent on ordering, an additional $0.26 must be added to cover these costs. This means therefore that the minimum mark-up of 50% charged more than covers these costs and others. With orders of $600, this additional cost per dollar comes down to only $0.13 meaning that the minimum mark-up is actually too big and yet in interviews carried out post the questionnaires, the average mark-up was indicated as at least 100%. This point also helps to explain the capacity for discounts which players indicated as a frequent practice in the sector given the lack of economies of scale which is often used as the basis for such in the formal retail sector. However one needs to note that the sources of such discounts for the two sectors are different. In the informal sector, discounts are derived from prices that originally set at very high levels whereas in the formal sector discounts are derived from sourcing where they buy in large quantities yielding lower costs which are then passed to customers at discounted prices. This, to us is the conventional way of doing business.

Conclussion and Recommendations

The informal retail sector is dominated by individuals, the majority of which take the trade as a full-time occupation and from which their survival depends. To that end, one can say that the objectives of players range from survival to growth. However, given the fact that most players have been in this business for close to a decade and their stock levels have to a large extent remained in the region of $500 - $1000, we are inclined to conclude that, as things stand, the main objective of players in the sector is that of survival. This is also supported by the fact that the mark-ups charged have remained on the high side and to that point not supportive of growth mode. By charging these high mark-ups, the players seek to make up for the volumes that normally characterise formal retailing and would represent a major source of their income. Further, because the quantities bought of individual units have to large extent remained small, it also means that economies of scale are missing and yet they are the bedrock of growth in retailing and also create opportunities for reducing costs and effectively prices to motivate growth in quantities and in the end profitability. To that end, we therefore recommend the adoption of conventional principles by the sector. This can be achieved by pooling orders to come up with one big order which can then be used in negotiating discounts with suppliers either locally or internationally this also given similarities of their source markets. Further still, the failure by players to migrate from informal to formal retailing is also indicative of the absence of growth as an objective and yet this sector should be the training ground for future retailers. In the face of such a mindset, we then wonder as to the future of retailing for Gweru City Council in particular and the country in general. In our view, the existing mindset needs to be changed to one amenable with growth. To achieve this, it is our view that deliberate measures be taken to instil this growth mode/mindset and one way of doing so is by providing training whose content help open up the mindset to opportunities that awaits the players and also the strategies that can be used in persuit of the same. As already noted, the size of mark-ups, are themselves indicative of poverty in strategy and tactics for growth. Such growth is not necessarily going to be fuelled by injection of fresh capital but rather creating awareness on the part of players of the need to increase size of orders so as to gain discounts on the basis of their orders. This is achieved as already noted, through pooling their individual orders into one big order whether locally or externally. This position is itself informed by the fact that the merchandise sold in the sector is by and large similar and so by combining their orders, quantity discounts are gained and help to reduce cost per unit. When this happens, it also creates room for the players to also charge lower prices and in the process attract more and more customers to the sector or alternatively the difference between the lower cost achieved by pooling orders together and market price, translate into more profits which position in our view also represents growth. Either way, these players realise growth either in terms of quantities as a result of reduced prices or as a result of increased profitability. Such a position, help them to build the muscles to then migrate from the informal retail sector. These additional muscles come from improved relations with suppliers due to improved visibility created by increased size of orders as well as financial muscle derived from increased sales and profitability. Linked to this growth mode, is the improvement in management systems which help to create better levels of accountability and in the process close all loopholes for linkages. To that point, the training programme should therefore cover management systems that are necessary for a retail outlet among which include, merchandising, till operations, storage, etc.

In order for the said training to be meaningful, a proper needs analysis needs to be carried out, and this because players in the sector have different educational backgrounds and also face different challenges. The one size fits all strategy should therefore be avoided and a needs assessment form should therefore be designed and will then form the basis for classification of players into groups for training purposes. The essence of the said groups is to help tailor- make training to specific needs of those groups for meaning and also facilitate movement from one stage to the other and eventually deliver them from the informal sector to formal one. A good example here is that of discounts. Currently the majority of discounts are random and the mechanism of administration is just one of cents-off and yet many alternatives are available inclusive of coupon system which can be periodic or random. Further, for the majority of players, the list price remains the same regardless of location of operations and yet, the market served is different. Failure to realise this results in opportunities for profit and sales being lost. The training programmes alluded to above should help create awareness of opportunities that characterise such a set up. In addition, the players to not correctly characterise their competition, consumers and also themselves leading to wrong decisions on pricing objectives and strategies.

Players in the sector need to separate between family and business and to that end create a separate account for their businesses so as to correctly account for their performance. Further, training needs be assessed and programmes should be designed and administered for improved performance of not only the sector but the Gweru economy at large.

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