ST. MARY'S UNIVERSITY

BUSINESS FACULTY

DEPARTMENT OF MARKETING MANAGEMENT

AN ASSESSMENT OF PRICING PRACTICE IN THE CASE OF MUGHER CEMENT ENTERPRISE

BY

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ADDIS ABABA

AN ASSESSMENT OF PRICING PRACTICE IN THE CASE OF MUGHER CEMENT ENTERPRISE

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CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

In today's world of the competition a firm's is based on the ability of its product with competitive price that result in satisfied customers is the key to gain a sustainable competitive advantage *(Shemwell, 1998). Muffato and Panizzolo (1995)* also suggested that following the appropriate pricing strategy is considered to be one of the most important competitive factors for the future, and will be the best indicators of a firm's profitability. One of the main factors facing an organization in its efforts to improve its market share involves pricing strategy and therefore, the company must satisfy the need of customers in ways that contribute to long term loyalty *(Gomez-Mejia 2005: 8)*. In today's fast passing world of business evolution in attempting to thrive within a growing global environment, to which an organization serves its customers, must maintain an equal emphasis as that of its strategic goals. Finding ways to improve the pricing strategy is a major key to boosting sales and profitability *(Barker 2006: 30)* and for this reason; many business are attempting to refine their traditional practices of pricing strategy. Pricing strategy refers to the method companies use to price their products and service. Almost all companies, large or small, base the price of their certain percentage so they can make profit.

Zeithaml and Bitner (1996) suggest that competitive pricing strategy has been reached with many manufactured goods. Technological superiority is increasingly more difficult to maintain as a lasting strategy and maintaining low price is equally challenging as a differentiating strategy. Therefore, one potential competitive strategy is the development of a pricing strategy. According to *Mathieu (2001)* pricing is becoming a smart strategy, because it products a strong competitive advantage through differentiation opportunities even within the competitive market, furthermore, *Mather and Shapiro (1993)* think that a pricing strategy can also help in building industry barriers to entry.

1.2. Statement of the Problem

Pricing Strategy is important in the manufacturing industries that apparently sell only a physical product. Giving a very series attention to its pricing in general is very crucial, because it includes sensitivity to profit, return of investment, and maintenance. Also, following good pricing strategy can be a strategic way for firms to increase its profitability and to the retail customer, and grow to their business in a competitive market, adding better pricing strategy has the potential to be a competitive advantage. *Zeithmal and Bitner, and (1996)* suggested that pricing strategy has been reached with many manufactured goods.

The price of product to the seller it determines whether a product gain market acceptance, maintain its market position in the pace of growing competition and realize on optimum profit level.(Ford D.,1998:417)

In the customer relationship management approach, pricing strategy is the basis for customers attraction and retention, as service quality and service delivery in modern business practices are very often the source of long-term and sustainable competitive advantage. It is very important in service to understand the impact of price strategy on profit and financial indicators of business performance. Price strategy must be viewed as strategy is a significant source of sustainable competitive advantage, as it affects the constant improvement of profit by increasing market share. Such a view of pricing strategy yields an increase in financial results and achieving sustainable competitive advantage.

If we examine the situation in Mugher Cement Enterprise, the pricing strategy is not competitors and customer focused. Since the company is manufacturing organization the pricing systems are generally based on manufacturing analogues and tend to be more product oriented than customer. However, now a days to be competitive enough they must look beyond product orientation and pay significant attention to pricing. The student researcher was trying to assess and analyze the pricing strategy of the company.

1.3. Basic Research Questions

For the above research problem, the study seeks to answer the following specific research questions.

1. What is the discrepancy between customers' insight towards the pricing in Mugher Cement Enterprise?
2. To what extent does the company consider competitive environment in setting price?
3. How the company determines its product price?

1.4. Objective of the Study

1.4.1. General Objective

The main objective of the proposed study will be to examine the actual practices of the price strategy system in Mugher Cement Enterprise.

1.4.2. Specific Objectives

- To assess the discrepancy between customer insight towards the pricing strategy in the company;
- To analyze the practice of the company in determining price for its products;
- To assess company's consideration of competitive environment in setting price.

1.5. Significance of the Study

The study gives understanding about a pricing and its consequence to the company. It will serve as base for other researcher will study on the same or related topics. For student researcher the study helps to gain some experience and in preparing senior project to get BA Degree in marketing management.

1.6. Scope of the Study/Delimitation

Since the proposed research intends to address the pricing strategy aspect of the company, the chosen research problem is somewhat diverse, but the researcher will try to narrow down the focus. The plan of the research is to gain a better understanding of the pricing strategy dimensions that affect customer loyalty in Mugher Cement Enterprise from external customer perspectives. The study was conducted on the year 2005 E.C. pricing strategy of the company‘s branch in Addis Ababa.

1.7. Research Design and Methodology

1.7.1. Research Design

The proposed research is mainly descriptive. It is descriptive because the study was describing a reality as it is and it helps to answer the questions of what, how, when, and where.

1.7.2. Population Size and Sampling Techniques

The target population for the proposed study is comprised of employee of Mugher Cement Enterprise.

In the proposed research study, the student researcher is expecting to use non probability sampling technique, particularly convenience sampling. It is because it is hard to get all the respondents at once, so it is rather easy and acceptable to collect data as the time of the presence of the student researcher. There are about 200 employees in the enterprise under marketing department. So the student researcher plans to select 25% of them i.e., 50 respondents. Using larger sample size in this survey would require more time and high financial resources which the student researcher faced time limit with in which the research paper is expected to complete would not permit the use of larger sample size more than this.

1.7.3. Types of Data to be collected

The student researcher plans to collect data from both primary and secondary data source.

1.7.4. Method of Data Collection

Questionnaire and interview was prepared carefully and properly, administered as a primary screening tool. The questionnaire was distributed to customers and employees. The questionnaire was designed in such a way that both close ended and few open ended questions were incorporated to understand pricing strategy related to objective of the study. The student researcher developed an interview questions for Mugher Cement Enterprise Manager, in his office at Addis Ababa around Gotera.

1.7.5. Method of Data Analysis

The data gathered through the above mentioned methods were classified and analyzed. Percentage is mainly used for analysis and interpretation of the data.

After the data are organized, analyzed and interpreted; conclusion of the major finding was drawn to finalize the research study.

The summarized data was presented in the form of tables.

1.8. Organization of the Study

This study has four chapters;

- Chapter one is introduction with relative background to the study, statement of the problem objective of the study, research questions, significance, methodology, limitation and scope of the study.
- In chapter two, an overview over the literature review is presented.
- Chapter three provides a detail methodology part in which a description and justification of the methods used obtaining the data needed for the thesis. The collected data will be analyzed compared with the theoretical framework in chapter two.
- Chapter four presents the conclusion and recommendation part of the thesis.

1.9. Limitation

During the preparation of this research study the student researcher was constrained by various limitations. Among the major limitations:

- Some of the customers and company employees were not willing to provide necessary information.
- I faced limitation of time and resource.
- The research focused only in the case of Addis Ababa

CHAPTER TWO

REVIEW OF LITERATURE

2.1. Definition of Pricing

Price is the amount of money and /or other items with utility needed to acquire a product recall that utility is an attribute with the potential satisfy wants thus price may involve more than money *(Eizel and others,2001:324]*

Price is the sum of all values that consumer exchange for the benefits of having or using the product or service through most of history prices were set negotiation between buyers and sellers fixed price polices setting one price for all buyers are a relatively modern idea that arose with the development of large scale retailing at the end of nineteenth century price is the only elements in the marketing mix that produce s revenue. All other elements represent costs prices is also one of the most flexible elements of the marketing mix. *(Kotler and Armstrong, 2005: 417)*

The price of product or service is crucially important to the seller, it determines whether a product gain market acceptance maintain its market position in the pace of growing competition and realize on optimum profit level.*(FordD.,1998:417)*

2.2. Methods of Pricing

Intelligent pricing is one of the most important elements of any successful business venture. Yet many entrepreneurs fail to educate themselves adequately about various pricing components and strategies before launching a new business. Smart small business owners will weigh many marketplace factors before setting prices for their goods and service. As the Small Business Administration (SBA) indicated in the fact about pricing your product and services, “you must understand your market, distribution costs, and competition. Remember, the marketplace responds rapidly to technological advance and international compilation. You must keep abreast of the factors that affect pricing and be ready to adjust quickly.”

2.2.1. Penetration Pricing

A small company that used penetration typically sets a low price for its product or service in hopes of building market share, which is the percentage of sales a company has in the market versus total sales. The primary objective of penetration pricing is to lots of customers with low price and then uses various marketing strategies to retain them for example, a small internet software distributor may set a low price for its products and subsequently email customers with additional software product offers every month. A small company will work hard to serve these customers to build brand loyalty among them**. (Sexena, 2002:289)**

2.2.2. Price Skimming

Another type of pricing strategy is price skimming, in which a company sets its prices high to quickly recover expenditures for production and advertising. The key objective of a price skimming strategy is to achieve a profit quickly. Companies often use price skimming when they lack financial resources to produce products in volume, according to the article "Pricing Strategy" at Net MBA.com Instead, the company will use the quick spurts of cash to finance additional production and advertising. *(Ibid)*

2.2.3. Product Life Cycle Pricing

All products have a life span, called product life cycle. A product gradually progresses through different stages in the cycle: introduction, growth, maturity and decline stages, during the growth stage, when sales are booming, a small company usually will keep prices higher. For example, if the company's product is unique or of higher quality than competitive products, customers will likely pay the higher price. A company that prices its products high in the growth stage also may have a new technology that is in high demand. *(Ibid)*

2.2.4. Competitive Based Pricing

There are times when a small company may have to lower its price to meet the prices of competitors. A competitive based pricing strategy may be employed when there is little difference between products in an industry. For example, when people purchase paper plates or foam cups or a picnic, they often shop for the lowest price when there is minimal product differentiation. Consequently, a small paper company may need to price its products lower or lose potential sales. *(Ibid)*

2.2.5. Temporary Discount Pricing

Small companies also may use temporary discounts to increase sales. Temporary discount pricing strategies include coupons, cent-off sales, seasonal price reductions after the holiday to reduce product inventory. A volume discount may include a buy two get one free promotion. *(Elzel and others, 2001: 285)*

2.3. Importance of Price

Price has much significance in the economy in the customer mind and for the individual firm.

2.3.1. In the Economy

A product price influence wag, rent, interest and profits price is a basic regulator of the economic system. Because it influences the allocation of the factors of product on labor land and capital high wages attract labor high interest rate attract capital as an allocator to resource price determines what will produced (supply) and who will get to goods and services produced (demand)**.***(Elzel and others, 2001: 325)*

2.3.2. In the Customer Mind

Since prospective customers are interested primarily low price where as another segment is more concerned with other factor such as service quality value and brand image it's safe to say that few, if any customers are attentive to price alone or are entity obvious to price. *(Elzel and others, 2001: 326)*

2.3.3. In the Individual Firm

A product price is a major determinant of the market demand for it through prices money comes in to com organization. Thus prices affects a firm's competitive position revenues and net profit according to a making consultant pricing is extremely because small changes in price can translate into huge improvement. In profitability *(Elzel and others, 2001:328)*

2.4. Setting the Price

From the perspective of management the important factor to setting the price is the marketing which the firm operates. The type of product and the number and size competitor must be considered, when setting price. Price behavior that is rational and constant with scientific principles in one type of marketing may be irrational unscientific in another market. *(Gross, A. 1998: 417)*

A firm must get a price for the first time when it develops a new product. When it introduce its regular product in to a new distribution channel or geographic area and when it inter bids on new contract work the firm must decide where to position its product quality and price**.** *(Kotler, 2006: 436)*

2.4.1. Selecting the Pricing Objective

The company first decides where it wants to position its market offering. The clearer a firm's objective the easier it is to set price a company can pursue most of the major objective through pricing survival. Maximum current profit, maximum market share and maximum market swimming or product quality leadership are important to consider. *(Kotler, 2006: 437)*

2.4.1.1. Survival

Companies pursue survival as their major objective if they are plague with over capacity intense competition or changing consumer wants along as price cover viable costs and some fixed costs. The company stays in business survival is a short own objective in the long run the firm must learn how to do add value or face extinction. *(Ibid)*

2.4.1.2. Maximum Current Profit

The Estimate, the demand and costs associated with alternative price that produces maximum current profit cash flow or rate or return on investment. This strategy assumes that the firm has knowledge of its demand and cost function: in reality those are difficult to estimate in emphasizing current performance the company may sacrifice long run performance by ignoring the effects of other marketing mix variables competitors' reactions and legal restrains on price. *(Ibid)*

2.4.1.3. Maximum Market Share

Some companies want to maximize their market share. They believe that a higher sales volume will lead to lower unit costs and higher long run profit they set the lowest price; assuming the market is price sensitive. Texas instrument (T1) has practiced this market penetration pricing it would build a large plat. Set it price as low as possible. Win a large market share experience falling costs and cut its price further as cost stall. The following conditions favor a low price according to *Kotler (2006: 438).*

- Production and distribution costs fall with accumulated production experiences.
- A low price discourage actual and potential competition
- The market highly price sensitive and low price stimulate market grow

2.4.1.4. Maximum Market Skimming

Company unwilling a new technology favor setting high prices to maximize market skimming. This serve under the following condition *(Ibid)*

- Sufficient number of buyers have a high current demand
- The unit of producing a small volume are not so high that they council the advantage charging what the traffic will bear
- The high initial price does not attract more competitors to the market
- The high price communicates the image of a superior product.

2.4.1.5. Product Quality Leadership

The company's main aim to be the product quality leadership in the market many brands strive to be affordable luxuries: product or services characterized by high level to prestige quality taste and status with a price just high enough on to be out of consumer reach *(Ibid).*

2.4.2. Determining Demand

Each price will lead to different level of demand and therefore have a different impact on a company's marketing objective in the normal case demand and price are inversely related the high the price the lower the demand in the case of good the curve sometimes stapes upward. Sometimes slops upward. Some consumers tack the higher price to signify a better product. However, if the price is to high the level of demand may fall *(Kotler, 2006: 439).*

2.4.2.1. Price Sensitivity

The demand curve shows the markets probable purchase quantity at alternative prices. Customers are most prices sensitive to product that cost a lot or are brought frequently. They are fewer sensitive to low cost items on items they buy in the quantity. They are also fewer price sensitive when price is only a small part of the total cost of obtaining operating and servicing the product over its life time.

A seller can charge a higher price them competitors and still get the business. If the company convinces the customer that it offers the lowest total cost of ownership *(Ibid).*

2.4.2.2. PriceElasticity of Demand

According to *Kotler (2006: 440)* demand is quickly to be less elastic under the following conditions:

- Buyers are buy to change their buying habits
- Buyers think the higher prices are justified
- There are fewer number of substitutes as competitors
- Buyers do not readily notice the higher price. If demand is elastic, seller will consider lowering the price.

2.4.3. Accumulated Production

Taken companies methods of production workers loan a short costs materials flow more smoothly procurement costs fall thus the average costs falls with accumulated production experience which is the experience curve.

Experience curve pricing nevertheless major risks, aggressive pricing might give the product a negative image. The strategies lead company into building more plants to meet demand while a competitor innovate a lower cost technology and obtain lower costs than the market leader company which is new stock with old technology. *(Kotler, 2006: 442)*

2.4.4. Analyzing Competitors' Cost

Price and offers the firms should first consider the nearestcompetitors' price, if the firms offers contains positive differentiation features not offered by the nearest competitors their worth to the customer should be evaluated and added to the competitors price, if the competitor offer contains some features not offered by the firm, their worth to the customer should be evaluated and subtracted from the firms price now the firm can decide whether it can charge more the some or less then the competitor. *(Kotler, 2006: 443)*

2.4.5. Selecting the Pricing Method

Companies select a pricing method that includes one or more of the following according to *(Kotler 2006: 444)*

- Cost function
- Competitors price
- Customer demand schedule

A. Cost Based Pricing

The simplest pricing method is cost plus pricing adding a standard markup to cot of the product construction companies for example submit job bids by estimating to total product cost and adding a standard mark up for profit lowers, accountant and other provisional typically price by adding a standard mark up to their costs, small sellers tell their customers that they will charge cost plus a specify mark up. *(Kotler and Armstrong, 2006: 321)*

B. Value Based Pricing

An increasing number of companies as basing their price on the product presided value based pricing uses buyer's insight of value not the seller cost as the key to pricing value based pricing means that the marketer cannot design a product and marketing program and then setting the price.

Comparing cost based pricing with value based pricing cost based pricing is product driven. The company designs what it considers to be a good product totals the cost of making the product and sets a price that curves costs plus a target profit marketing must than convince buyers that the products value at that price justifies its purchase. If the prices turns out to be too high the company must settle for lower a markups on lower sales both resulting in disappointing profits.

Value Based pricing reversed this process. The company sets its target prices based on customer insight of the product value. The targeted value and price the drive decision about product design and what costs can be incurred as a result. Pricing begins with mailing consumer, meets and value insight and price is set to match consumer perceived value it is important to remember that "good value" is not the same as "low price" *(Kotler and Armstrong, 2006: 323)*

C. Competitive Based Pricing

There are times when a small company may have to lower its price to meet the prices of competitors. A competitive based pricing strategy may be employed when there is little difference between products in an industry. For example, when people purchase paper plates or foam cups or a picnic, they often shop for the lowest price when there is minimal product differentiation. Consequently, a small paper company may need to price its products lower or lose potential sales. (Mathieu 2001)

D. Pricing a Based the Market Level

One can fix the price of the product above the market price only when one is confident that the product is highly esteemed in the market because it has a high class brand and distinctive features it is good for those customers who expect a high priced product to be high in quality. *(Ibid)*

E. Pricing Below the Market

Unlike the above the seller may keep the price of their product below the market rice perhaps because it is defective or is inferior in quality. Those that companies that do not go for much propaganda also keep their price law because there are no promotional costs to be recovered *(Ibid)*

Going rate pricing is quite popular, when demand elasticity is hard to measure, firms feel that the giving price represent the collective wisdom of the industry conveying the price that will yield a fair return. They also feel that holding to the gaining price will prevent harmful price wars. *(Kotler and Armstorng, 2006: 325)*

Competition based pricing is associated when firms bid for jobs using sealed bid pricing a firms bases its prices on how it thinks competitors will price rather than on its costs or on the demand the firm want to win a contract and wining the contact requires pricing less than other firms get the firms cannot set its price below a certain level it cannot see price below cost without harming its position in contrast, the higher the company sets it price above its costs the lower its chance of getting contact. *(Ibid)*

Differential pricing strategy this strategy involves a firm differentiating its price accords different market segment do not communicate or have different search costs and value insight of product. In other word heterogeneity in the market motives as firm to adopt this strategy. *(Sexena, 2002: 284)*

F. Cost Factors and Pricing

There are three primary cost factors that need to be considered by small business when determining the prices that they charge for their goods or services. After all, price alone means little if it is not figured within the context of operating costs. A company may be able to command a hefty price for an item. Only to find that the various costs of producing and delivering that item eliminate most or all of the profit that it realizes on the sale. It is more difficult to accurately guess their costs, especially in the realm of employee hours. A freelance copy editor may find that one 2,500 word articles twice as long to complete as an article of the same size because of difference in quality that are often difficult to anticipate ahead of time.

Labor Cost: Labor cost consists of the cost of the work that goes into the manufacturing of a product or the execution of a service. Direct labor costs can be figures by multiplying the cost of labor per hour by the number of employee-hours required to complete the job. Business owners however, need to keep in mind that the “cost of per hour” includes not only hourly wage or salary of the relevant officials, but also the costs of the fringe benefits that those workers receive. These fringe benefits can include social security, retirement benefits, insurance, unemployment compensation, workers compensation sand other benefits.

Material Cost: Material cost is the costs of all materials that are part of the final product offered by the business. As with labor, this expense can apply to both goods and services. In the case of goods, material costs refer to the cost of the various components that make up product, while material costs associated with service rendered.

Typically include replacement parts, building parts, etc. a deck builder, for example would include such items as lumber, nails, and sealers as material costs.

Overhead Costs: Overhead costs are costs that cannot be directly attributed to one particular product or service. Some business consultants simply refer to overhead costs as those business expense that do not qualify as labor costs or material costs. These costs include indirect expense such as general supplies, heating and lighting expenditures, depreciation, taxes, advertising, rental or leasing costs, transportation, employee discounts, damaged merchandise, business membership and insurance. A certain percentage of employees usually fit in this category as well. While the wages and benefits received by an assembly line worker involved in the production of a specific product might well qualify as a labor cost, the wages and benefits accrued by general supports personal-janitors, attorneys, accountants, clerks, human resource personnel and receptionists are included as overhead. Overhead expenses are typically divided into two categories-fixed expenses and variable expenses. Fixed expenses are regular (usually monthly) expenses that will not change much regardless of a company's business fortunes. Examples of fixed expenses include rent, utilities, insurance, membership dues, subscriptions, accounting costs, and depreciation on fixed assets. Variable expenses are those expenses that undergo greater fluctuation, depending on variable such as time of year (for seasonal businesses), competitor advertising and sales. Expenses that are more heavily predicated on company revenue and business owner strategies include office supplies, mailing and advertising communications (telephone and fax bills) and employee bonus.

Cost of Goods Sold: one of the most important tools that accountants and entrepreneurs use to gauge the health of business is the "cost of goods sold." This figure is in essence the business's total cost of manufacturing the products it sells or in the case of retail firma its total expenditures to purchase products for resale. Delivery and freight charges are typically included within this equation. Cost of goods sold provides business owners with a rough measurement of their gross profit margin. The figure usually bears a close relationship to sales. But it may vary significantly if increases in the prices paid for merchandise cannot be offset by increases in sales prices, or if profit margins swell because of special purchase deals or sudden surges in product popularity.

2.4.6. Selecting the Final Price

Pricing methods narrow the range from which the company must select its final price in selecting final price the company must consider additional factors including psychological pricing, gain and risk sharing pricing the influence of other marketing mix elements on price company pricing policies and the impact of price on other parties. *(Kotler, 2006: 487)*

2.5. Other Pricing Setting Theory

Other several types of pricing are practiced by business market according to *Gross A. (1998: 420)* discussed three pricing methods such as applied demand pricing: cost plus pricing and break even pricing.

2.5.1. Supply Demand Pricing

This pricing method places similar emphasis on other supply and demand factors it assumes the firms are attempting to maximize profits, they accomplish this goal by determining a price where the extra revenue. Received from selling the last unit of product is equal to the cost of producing it (marginal revenue = marginal cost) this method of pricing is an ideal that should be aimed fro but it's difficult to use in practice.

2.5.2. Cost plus Pricing

Firms set prices on the base of cost plus "fair" profit percentage. Cost refers to average or per unit cost and may be based on actual expected or standard costs. The level of output (expected demand) used in computing cost is usually based on the quantity that is or could be sold at the current price.

The major advantage of this form of pricing is that it is simple. It appeals especially to firms that to vary little market research *(Ibid).*

The major objection to cost plus pricing is that it is based primarily on supply conditions and pays little attention for the demand side of the market.

2.5.3. Break Even Pricing

It's used to illustrate the relationship of cost and revenues to output. Break even pricing is similar to cost plus pricing in that it is primarily supply or rented break even pricing involves estimating a relationship between cost and output and computing relationship between revenue and output at various prices. *(Ibid)*

2.6. The Marketing Management Fix Low Prices when:-

- The product is ordinary
- The production cost is low
- The fast sales turnover is to be achieved and so on when there is mass production.

2.7. The Marketing Management Fix High Prices When:-

- The production cost is high
- The product is unique
- Additional services provided.

2.8. Fair Pricing

The price of the product has considerable to the in promoting the product in a competitive market customer should happy with the price. *(Ibid)*

2.9. Responding to Competitors Price Changes

In homogenous product market, the firm should consider the following issues according to *Kotler (2006: 460)*

- What are the competitors and other firms responses likely to be each possible reaction
- What will happen to the company's market share and profits if it does not respond? Are others responding?
- Does the competitor plan to make the price change temporary or permanent?
- Why the competitors did changes the price? To steal the market to utilize excess capacity to meet changing cost conditions or to lead an industry wide price change?

CHAPTER THREE

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter deals with the analysis and interpretation of the study on the data gathered from employee of Mugher Cement Enterprise.

The data was gathered through questionnaires that were distributed to 50 selected employees of the company who fully completed and returned the questionnaires. The selection of those 50 employees out of all was done based on their relation and contribution in pricing strategy decision.

The data was also collected through interview that was made with the employee of Mugher Cement Enterprise. In the subsequent section of this chapter, the data are presented and analyzed using number and percentage with tables and others.

3.1. Respondent's Characteristics

Distribution of respondents was based on gender, position and educational level.

From item table 3:1 it is understood that from the total number of respondents 80% are male and the remaining 20% are female this indicates that the majority of recruited employee s of Mugher Cement Enterprise are males. About 40% of the respondents are found at higher level and 60% of the respondents found at middle level.

Table 3.1. Characteristic of respondents

No	Item	Category	Number	Percent
1	Gender	Male	40	80%
		Female	10	20%
		Total	**50**	**100%**
2	Position	Higher level	20	40%
		Middle level	20	60
		Total	**50**	**100%**
3	Educational level	Diploma	35	70%
		First degree	10	20
		Above first degree	5	20%
		Total	**50**	**100%**

3.2. Respondents' views Regarding Company's Pricing Objective

Four questions were forwarded for employee to understand the company's (Mugher Cement Enterprise) pricing objective and the responses are summarized in the following figure.

Table 3.2 Mugher Pricing Objective

Item		Number	Percentage
Collect info before setting price	Very well	13	26
	Well	30	60
	Medium	7	14
	Low	0	0
	Total	50	100
Aim to create positive image in the minds of customers	Always	10	20
	Very often	25	50
	Sometimes	15	30
	Not at all	0	0
	Total	50	100
Aim to create maximum market share	Always	27	54
	Very often	13	26
	Sometimes	10	20
	Not at all	0	0
	Total	50	100
Aim to maximize current profit	Always	7	14
	Very often	37	74
	Sometimes	6	12
	Not at all	0	0
	Total	50	100

As it is clearly seen in the above table, respondents answered four questions, all questions are clearly analyzed here.

The first question in the questionnaire was “How do you collect efficient information before setting the price?” 25% of the respondents said very well, 15% medium and 60% said well. This implies that the company doesn’t collect adequate information before setting price.

The second question was “How often do aim to create positive image in the minds of customers?” 20% of the respondents said always, 50% said very often and 30% replied sometimes. This implies most of the employees aim to create positive image during setting price often.

For the third question regarding aim to create maximum market share, 54% said always, 26.0% very often and 20% not at all. This implies that most of the employees try to create maximum market share.

The fourth questions that is; aim to maximize current profit, 14% of the respondents say always, 74% very often and 12% said sometime. This indicates that most of the employees somehow aim to maximize current profit.

It is important here to signify that their current procedure for price setting, the student researcher obtained, that Mugher currently sum up all costs and add some values as mark up. As it is indicated above 54% and 26% of the respondents are trying to maximize market share. This implies almost all the employees believe that they have a high sales volume. This objective is important to have higher long run profit.

Table 3.3. Regarding Customers Demand and Information Collection in Setting Price

No	Item	Respondents		
			Number	**Percentage**
1	How do you think that the pricing policy of the firm contributes to the attainment of the organization's objective?	Very high	8	16%
		High	21	42%
		Medium	21	42%
		Low	0	0
		Very low	0	0
		Total	**50**	**100**
2	To what extent does the company take in to account the customer demand in setting price	Very high	0	0
		High	10	20%
		Medium	40	80%
		Low	0	0
		Very low	0	0
		Total	**50**	**100**

As it is observed from table 3:3 16% of employees rated as very high 42% of employee rated high and 42% of employees rated medium, when they were asked the extent to which their pricing policy contributes to meet its objectives. From the responses of the respondents, the contribution of the cost plus pricing policy of the company meets the general objective: that is profit maximization of the firm is high. As they indicated in the interview the main reason for this is that the company changed its pricing policy along with the current situation of the market.

As it is indicated in table 3.3 item 20.0% of employees respond that the company extent of considering demand in to account is high and 80.0% of the respondent rated the company's considering the demand of customer as “medium”. From the response it is clear that the company considers customer demand while setting the price. The company mainly focuses on setting the price depending on customer demand.

Most of the respondents agreed that the company is not good in collecting information and continuously assessing the market.

Table 3.4. Legal Issues Considered by the Mugher Enterprise

Item	Respondent		
		Number	**Percentage**
How far does the company take the government policy in to account during setting price	Very high	8	16
	High	34	68
	Medium	8	16
	Low	0	0
	Very low	0	0
	Total	**50**	**100**

As it is depicted on the table; 84% of respondents replied high or very high when they were asked how far the company take the legal issue in to account during setting price. Our country follows a market oriented economic development strategy. In order to encourage, promote and expand cement factories, the government has issued governmental firms. So Mugher Cement Enterprise is beneficiary from this government privileges.

The following table is about pricing method that is practiced in Mugher Cement Enterprise.

Table 3.5. The Pricing Method of Mugher Cement Enterprise

Item	Respondent		
		Number	**Percentage**
What kind of pricing method is experimented?	Cost Plus pricing	39	78
	Target Return	4	8
	Perceived Value	-	-
	Ongoing Rate	-	-
	Say Nothing	7	14
	Total	**50**	**100**

We can clearly understand that 78% of the respondents agreed on the pricing method implied, 8 percent of the employee replied that they set a price when it covers all costs and add some margin based on annual plan or return on investment, the remaining 14% said nothing.

As we see right here almost all the employee (86%) agreed that the pricing method exercised is cost plus pricing method.

Regarding the availability of substitute product in the market, the answers of employee is summarized as follows.

Table 3.6 Availability of Substitute Product in the Market

Item		Number	Percentage
Availability of substitute product in the market	No substitute	6	12
	Wide substitute	19	38
	Available for some	13	26
	Rarely available	12	24
	Total	**50**	**100**

In table 3.6 38% of employee agreed that substitute product are widely available, 26% feel that they exist somehow, 24% said rarely available and the remaining 12% said that there are no substitute.

There are products that substitute for Mugher Cement Enterprise like products from Mosobo, DerbaMedrok, Dangote and Habesha. Significant size of employee are aware of the existence of these companies.

After the employee replied about availability of substitute products the next question was whether they are evaluating competitors' products or not in this regard respondents replied as follows.

Table 3.7 About Analyzing Competitors Products, Price and Offer

Item		Number	Percentage
Analyzing competitors' product	Very often	13	26
	Sometimes	31	62
	Not at all	6	12
	Total	**50**	**100**
Analyzing competitors' price	Very often	25	50
	Sometimes	25	50
	Not at all	0	0
	Total	**50**	**100**
Analyzing competitors' offer	Yes	40	80
	No	10	20
	Total	**50**	**100**

As we see in the above graph 26% of respondents replied that they analyze competitors' products very often and another 62% said sometimes and 12% said that they do not analyze at all.

As it's indicated in the previous table (table 3.6) 88% of employee agreed on availability of substitute products, no matter widely or rarely. However, in the current table (table 3.7) question no one select the choice "always" this means the company gives less attention for competitors. We can clarify this using the next issue, which is about the frequency at which the company considers competitors' prices. To this end 50% of the respondent said that they sometimes analyzes competitors' price, 50% respondent said very often. It implies 100% of employees are familiar with competitors' price.

When we see the next question which said "Have you try to analyze competitor offer?" To this end 80% said 'yes' and the 'remaining 20% said "no".

However, since competitors' offer is widely available, especially in the form of descriptions and standards, 80% of employees are aware of competitors offer and also the respondents said that the company takes measures based on analysis. That is to adjust the company's offer is based on what competitors offer and improve product quality, price and promotion. From those who said "no" further question was asked for the reason all of them answered that the difference was visible.

The next question was "How do you respond when competitors initiate a price change?" 74% of the employee said that they will respond gradually, 12% said they would respond "fast" and the remaining 14% said very slowly.

Table 3.8 Response of Mugher Cement Enterprise Pricing Change in the Market

Item		**Number**	**Percentage**
Response to the price change in the market	Very fast	0	0
	Fast	6	12
	Gradually	37	74
	Slowly	0	0
	Very slowly	7	14
	Total	**50**	**100**

This is good for such a company that has a pricing objective aims to maximize market share. Furthermore, Mugher Cement Enterprise has to consider the following points before deciding to give response for price change

- What is the impact for market share?
- Why competitors change their price?
- What will be the other competitor's response?

In order to understand customer insight on the company's price that is whether customers expect quality, strength of the product.

The answers of the employee are summarized in the following figure.

Table 3.9. The Problem of Production Site for the Company

Item	Respondent		
		Number	**Percentage**
Do you think that location of production site has got any influence on the product quality?	Yes	48	96%
	No	2	4.0
	Total	**50**	**100**

Employees were asked whether they think that location of production site has any influence on product price or not. In connection to this 96% of employee responded "yes" and 4% of employees respond "no". Most employee think that distance between production site and the market may increase price of the product.

This led the company to lose the market of bulky products that is not comfortable for transportation but as the respondent said in their opinion, the company takes measures by building stores near to the market.

3.3. Findings of the Qualitative Data

Interview Result

- The participant in the detail interview was manager of Mugher Cement Enterprise. He was chosen to participate in this interview according to his duty and responsibility as a decision maker for the company.
- The interview was held in his office .first the interviewer clarified about the aspect of the interview. The interviewee was asked to express his job position, work experience and educational level. The interviewee was the top level manager. He has been working in the current position, in this company for more than ten years and he had MA Degree.
- The interviewer asked questions about the company's objective in setting the price and who the responsible department to set the price is.

The interviewee gave his own personal response by saying that the company's general objective is producing and selling different types of cement product; that are

PPC (Portland Pazzolana Cement)
OPC (Ordinary Portland cement)
PLC (Portland Lime Stone Cement)

He also said that the company uses cost plus pricing method. Sales, marketing, research, production, finance and purchasing departments are participants in setting price.

- The interviewer asked who were the customers and competitors of the company. The manager responds as follows: “The Company has many customer BetochAgency, Governmental organizations and individuals. Our major competitors are Habesha cement, Dangote cement, Derba cement, Mesobo cement.”

The other issue the interviewer raised was if he thought that their customers perceive price changes. The manager said that it was unjustifiable. This answer pushed the interviewer to ask other question that was “what you are going to do when customer does not perceive the price change?” He said they would do nothing. This means the company ignores customer reaction.

It is true that new entrants are discouraged by huge switching costs and also it requires huge capital to create competitive company. It is an advantage for Mugher Cement Enterprise. However ignoring customer insight may results in loose market share. It is not proper way to achieve company’s mission.

CHAPTER FOUR

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter deals with the summary of the study conclusion and the recommendations forwarded.

4.1. Summary

This study was conducted to investigate those problems which are associated with developing and managing pricing policy strategies and factors that affect pricing determination in Mugher Cement Enterprise.

The data employed census to select respondents and the study consisted 50 of Mugher employees working at different level in marketing department. The data for investigation was obtained through questionnaire, interview. The majority of employee at Mugher were males and had diploma and degree. It was found that Mugher sets its price as long as it covers cost plus price. This shows the enterprise's price setting is aimed at maximizing market share.

Mugher Cement Enterprise adheres the principle of higher sales volume. This will enable to decrease unit cost and increase long term profit. This means Mugher implements long term objective. The company does not take customer demand into account during setting price. The company collects information before setting the price but it is not adequate.

The contribution of the cost plus pricing policy of the company aims to meet its general objective. That is profit maximization of the firm is medium because, the company changes its pricing policy gradually in line with the current market situation,

Mugher Cement Enterprise follow a product oriented economic development strategy in setting price it is beneficiary from government. The finding also revealed that the majority of employee agreed upon the pricing method practiced in Mugher which includes cost plus pricing method.

The data analysis has shown that substitute products are not that much widely available in the market and Mugher has few competitors in the market as a nature of firms requires high capital. Hence new entrants are discouraged. This few competitors are Habesha Cement, Derba Cement, Dangote, Mosobo, National cement.

Mugher responds gradually to the price change initiated by competitors'; it also seeks answers to the following point before responding to competitors' price change, these are "why competitors change their price?" Is it temporarily or permanently? What is the impact in market share? And what will be the other competitor's response?

The finding also revealed that the majority of the customers react gradually to the price change of Mugher. The reason why they do not react immediately and look for alternative substitute is that the product has unique quality and difference. Mugher has too many loyal customers from them Betoch Agency is the best example.

The location of the production site is very far from potential customer and market which has influence on product price. It also makes the company to lose the market of some products.

From interview it was concluded that the quality of Mugher product are good but the price is high as compared to competitors' firm.

Since it controls most of the market in our country, Mugher Cement Enterprise has a high market share. It also has good will government policy and few competitors.

4.2. Conclusions

In line with the basic question and analysis of the findings, it is possible to conclude that:

- The respondents did not have understanding to the objective of pricing, on the issue of customer demand. However, it was learnt from the investigation that the company uses cost plus pricing method, and its main objective is to control the market in the long run. Still significant number of the employee were not aware of these issue. Thus, it is possible to conclude that the pricing strategy in use was not clear or at least not communicated with significant size of the implementers.

- It has been found from the interview result that the sales department and marketing research department, production department, finance department and purchasing department participated on the discussion of price fixing. It has been also indicated that all production and associated costs have been added.

- It is possible to conclude that there is a problem on the actual process of product price setting, the process through which the company estimates /determines production cost in particular and the price of the company's product in general lack clarity. This can be evidenced by the contradictory view reflected by the respondents.

- When it sets price, the company considers factors like customer demand, the relative price of products, the size of competitors and their offers etc. Moreover, before reacting to competitor's price change, it analyzes the reason why the competitors make price change and the impact of the change on the overall market situations plus the way the market responds to the change. Therefore, it is possible to conclude that the company is not performing well in considering competitive environment in setting price. The extent to which the company uses competitive advantages through the use of appropriate pricing strategy is not good. The fact that the production site and sales site are significantly far apart, has its own impact on the price of the product and on the convenience of the customers.

4.3. Recommendation

The researcher investigated and founds out pricing policy and experience in Mugher Cement Enterprise and at least would like to recommend some points

- The concerned staffs of the company should first set its objective clearly then it is easy to set its price properly. Staffs marketing department and also the concerned employees should be communicated well about Mugher Cement Enterprise pricing strategy.
- The company should collect adequate information before setting price by reading current books, newspaper and trade publication and communicating to customers, suppliers and outsiders.
- The company's location of production site should be closer to customers and markets, as high transportation cost of the company has impact on the price of its product.
- Since there are no enough substitute products in the market the company shall continue using the cost plus pricing method.
- The company shall produce and utilize its resource fully for better achievements.
- The student researcher recommends, Mugher Cement Enterprise shall organize its resources and try to participate in to foreign markets. Then when competition becomes stiff the managers will be in a position to implement their pricing policy in a better manner. The company will become active in scanning its environment. This situation may lead the company to its long term goals.
- Mugher Cement Enterprise shall respond fast to the price change initiated by competitors.

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ANNEX 1

St. Mary's University

Faculty of Business

Department of Marketing Management

Interview conducted with Manager in Mugher Cement Enterprises

1. How many years have you worked in the company?
2. What is your educational background?
3. Who are the customers and competitors?
4. What is the objective of your company, when setting its product prices?

ANNEX 2

St. Mary's University

Faculty of Business

Department of Marketing Management

Questionnaire to be filled by Employees of the Mugher Cement Enterprises

The outcomes of this questionnaire are used to support a research report to serve as a partial requirement for the Bachelor of Arts Degree in Marketing Management.
The answer to be given by a respondent and the identification of respondent will not be disclosed to any party and shall be used solely for academic purpose.

Please make a tick mark (✓) on the letter of your choice

Part One: General Character of respondent

1. Sex A. Male☐ B. Female☐
2. Position A. Low level☐ B. Middle Level☐
   C. Higher Level☐
3. Educational Background
   A. Above Degree☐ B. Degree☐ C. Diploma☐

Part Two:

1. To what extent does the company collect efficient information before setting the price?
   A. Very well ☐ B. well☐ C. Medium☐ D. Low☐
2. How often the company considers the following pricing objectives during price setting?
   I. Aim to create positive image in the mind of customer

A. Always ☐ B. Very often☐ C. Sometimes ☐ D. Not at all☐

II. Aim to create maximum market share

A. Always ☐ B. Very often☐ C. Sometimes ☐ D. Not at all☐

III. Aim to maximize current profit

A. Always ☐ B. Very often☐ C. Sometimes ☐ D. Not at all☐

3. How does the company consider the government policy in to account?

A. Very high ☐ B. High☐ C. Medium☐ D. Low☐

4. To what extent do you think that the pricing policy of the firm contributes towards the attainment of the organization objectives?

A. Very high ☐ B. High☐ C. Medium☐ D. Low☐

5. To what extent does the company take into account customer demand in setting price?

A. Very high ☐ B. High☐ C. Medium☐ D. Low☐

6. To what extent does the company collect sufficient information before setting the prices?

A. Broad☐ B. Sufficient ☐C. Insufficient ☐D. Not at all☐

7. What do you feel about the availability of substitute products in the market?

A. Rarely available☐ C. Available in some cases☐

B. Widely available ☐ D. No substitute☐

8. How do you try to analyze competitor offers?

A. Very often ☐ B. Always☐ C. Sometimes☐ D. Not at all☐

9. How do you respond when a price change is initiated by your competitor?

A. Fast☐ B. Very fast☐C. Medium☐D. Slow☐ E. very slow☐

10. Do you think the location of production site has got any influence on the product price?

A. Yes☐ B. No☐

11. If your answer for question number 10 is yes, how do explain the effect?

DECLARATION

The Candidate's Declaration

The candidate declares that this senior essay is my original work prepared under the guidance of Mr. Melkamu.

All sources of materials used for this manuscript have been duly acknowledged.

Name: Etageng Jembere

Signature: ______________

Place of Submission: SMU Main Campus

Date of Submission: June 12, 2014

Advisor's Declaration

This paper has been submitted for examination with my approval as the university advisor.

Name: Mr. MelkamuAdamu

Signature: ____________

Date: ______________