

**PRICING STRATEGIES AND PROFITABILITY OF COMMERCIAL BANKS IN
KERICHO COUNTY, KENYA**

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DECLARATION

Declaration

I declare that this project is my original work and has not been presented in any other university/institution for consideration.

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Approval

This research project is submitted for examination with my approval as University

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DEDICATION

I would like to dedicate this project to my family specifically my husband, Amos Rotich and my daughters Shantelle and Cushny for their moral support. I thank them for their encouragement throughout the research.

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I am grateful to my supervisor, Robert Cheruiyot for assisting me throughout the study. I also thank librarians for availing the required research materials and the typist that ensured completion of the project. Most of all I give thanks to God for strengthening me throughout the project.

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OPERATIONAL DEFINITION OF TERMS

Commercial Banks	These are banks which provide financial services with the aim of making profits to their customer. They allow customer to deposit, withdraw or access loan from licensed financial organization.
Competition-based pricing	This is the setting of a price based on the competitor's prices.
Cost-Plus Pricing	This is a price set after determining the costs incurred in production of a product plus the profit.
Corporate governance	This is the collection of mechanisms, processes and relations used by various parties to control and to operate corporations.
Firm value	This is the economic measure reflecting the market value of a business.
Non-Financial Firms	These are firms that does allow deposit of money or give loan for interest to their customers.
Pricing strategy	It refers to method used in attaching value to different products of commercial banks in Kenya. These are cost-plus pricing, value-based pricing, price skimming and competition based pricing.

Profitability	It is measured in terms of profit, earnings and net shares which indicate the financial gain of an organization.
Skimming strategy	This is charging of high prices for a new product after which it is reduced.
Value-based pricing	This is a method of pricing based on the perceived worth of a product or service to intended customers.

ABBREVIATIONS AND ACRONYMS

ANOVA	Analysis of Variance
ATM	Automatic Teller Machine
CAPT	Capital Asset Pricing Theory
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CRR	Cash Ratios Requirement
DTB	Diamond Trust Bank
IVT	Instrumental Variables Technique
KCB	Kenya Commercial Bank
NIM	Net Interest Margins
MPC	Monetary Policy Committee
OMO	Open Market Operations
PWC	Price Waterhouse Coopers
ROA	Return on Assets
SACCO	Savings and Credit Cooperative Society
SPSS	Statistical Package for Social Sciences

ABSTRACT

Profitability of banking sector in Kenya has been declining since 2013. Some of the factors include high competition, capping of interest, pricing strategies among others. Pricing strategies in banking has not been considered despite underlying symptoms of declining growth in assets, loan and deposit. Therefore, there is need to investigate the pricing strategies used in commercial banks in Kenya. The study sought to establish the influence of pricing strategies on profitability of commercial banks in Kericho County, Kenya. The specific objectives of the study were: To find out the influence of Cost-plus pricing strategy, to determine the effect of value-based pricing strategies, to establish the influence of the Price Skimming strategy and to examine the role of competition based pricing strategy on profitability of commercial banks in Kericho County. The study would benefit the bank managers in Kenya since they would gain additional knowledge in relation to the pricing issues that need to be addressed to enhance the banks' profitability. The study was guided by four theories: The economic theory, Marketing view theory, Capital Asset Pricing Theory and Efficient-Structure theory. The study adopted a descriptive survey design. The design is chosen because the target population was dispersed over a wide geographical area. The design was useful in helping the researcher to obtain both quantitative and qualitative data from the target population. The target respondents were 62 comprising of members of the pricing committees, who include the heads of strategy and planning, the general managers, marketing managers, sales managers, and finance managers in KCB, Equity, Standard Chartered, Co-operative, SBM Bank, Barclays, Trans-national bank, Sidian, DTB, National bank and Family Bank Kenya. The researcher used census sampling design to select 62 respondents representing the whole targeted population. Both closed and open ended questionnaires were utilized in data collection. Data analysis was done using ANOVA and multiple regression analysis with the help of Statistical Package for Social Science version 21.0. The study found out that there was significant relationship between pricing strategies and profitability of the commercial banks. It found out that cost-plus pricing strategy allowed the banks to recover cost on labor and opening branches. Value based pricing strategy enabled the banks to gain profit. Price skimming strategy provided new product to commercial banks and hence increased profitability. Competitive pricing was not significant on profitability of the banks. The research concluded that banks should use cost-plus pricing, skimming and value addition to increase profitability of the organization. It recommended that banks should avoid competitive pricing because it would lower the price and reduce profitability. It also recommended that banks should adopt pricing strategies that give more value for their money especially cost plus pricing strategy. The findings would assist the commercial banks as well as the government in setting policies. It is crucial in a competitive environment to guide the banks growth and increase performance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Organizations globally focus on ensuring high performance, profitability and customer loyalty in their business. Corporate profitability is one of the measures of organization performance based on the financial management. High profitability benefit stakeholders in the organization especially the shareholders, employees and board of directors. Investors, suppliers and customers are also beneficiaries on highly profitable organization. Therefore, profitable business is highly valued by stakeholder based on the monetary reward, benefit, profit, interest, payback and dividend it offers to them. However, profitability is dictated by internal and external environment of the business (Toni, Milan, Saciloto, & Larentis, 2017). The competitive model from Porter revealed that competitiveness of enterprises are mainly affected by buyers' bargaining power, suppliers bargaining power, rivalries, substitute products and new entry (Wang, 2014). Pricing on the other hand is a component that has direct impact on the competitiveness of an organization since it is affected by buyers' bargaining power in term of discount and demand, suppliers bargaining power in term of cost, rivalries pricing strategy, price of substitute products and price of new entry. Despite the limitation of Porter model, price affects organization competitiveness which is highly linked with profitability.

Price is viewed in school of economics as a component that determine the profit from the different between buying and selling price. In the school of accounting school focus price as part of sales which when less cost of sales one get gross profit. However, price is view as a strategy that can be used to improve sales and thereafter increase profitability.

Pricing strategies are based on price decision made by top management to improve the competitiveness of the organization with an aim of improving profitability (Sammut-Bonnici & Channon, 2014). Price strategies are mainly affected by corporate image, geographical location, discounts, price discrimination a price sensitivity which affect the buyers' bargaining power as results of substitute awareness, end benefit effects, total expenditure effects, shared cost effects and sunk investment effects. However, the role of developing pricing strategies lies with the top management. Where they need to take into consideration the effect of pricing service has impact on marketing structure, technology among other changes in extern environment.

Commercial banks among other financial institution are focused in gaining higher performance in a competitive environment. Central Bank of Kenya is the main regulator to Kenyan Commercial banks in ensuring that the bank competes favorably as well as it safeguards the customer, investors and suppliers. According to Kenya Bankers Association 2019 report indicated that the banks encountered difficulties due to after shock in 2015 and 2016 as result of interest rate capping. The banking sector contribute to KES 2.5 trillion outstanding loans as in the the period of 2018 making 52 percentage of the real GDP. The banks non-performing loan has also rised. In 2016 the non performing loan was at 9.4%, subsequently in 2017 it had raised to 12.3 percent and 12.0 percent in 2018. The rise of non performing loans indicate low profitability of commercial banks in Kenya. The growth in asset also has reduced drastically from the highes of 30.0% in 2008 however significant drop started in 2013 from 25.0% to the lowest growth in 2017 with 6.0%. The report also indicated a decline in growth of deposit from 2013 with 30.0% to minimum of 7% in 2016. This trend of asset, loans and deposit

decline and increase of non performance loan as enough reasons to worry about the Commercial Banks within Kenya. The income subsequently has been dropping with 2017 registering a negative growth of 4.79%. Which is a decline in profitability.

Due to low and declining profitability in the banking sector. Subsequently, Imperial bank, Chase Bank and National Banking 2019 are some of the banks that have undergone receivership. This has lead also changes in majority of the bank also investing in insurance, real estate investment among other investment to remain afloat in the the banking industry. The Central bank of Kenya improves the economy by using monetary policy as a mechanism to influence the demand and supply of money and thus affecting pricing of bank services. The introduction of the CBR was to signal financial institutions toward a desired direction in their operation. The CBR rate is the rate which the CBK as a lender of last resort slap on banks that are unable to meet the shortfalls in their clearing account. However, on the other hand capping was found to be counterproductive as means of regulating interest rate in commercial by CBK (Central Bank of Kenya Report, 2018).. The introduction in 2017 and later relaxation in 2019 has seen change is banks profitability and changes in lending among the commercial banks in Kenya. Therefore, there is need to investigate on the pricing policies and techniques of commercial banks in Kenya.

1.1.1 The concept of pricing of commercial banks

The price of products and services is one of the major factors that are considered by those who purchase. Pricing is the process of establishing a price by taking into consideration the components, policies, objectives and strategies of the organization in relation to pricing. When pricing is being analyzed, the 4P's that is price, place, promotion and

product must be taken into consideration. Heads of both public and private organizations do not have a choice but to make critical decisions on pricing. Bett (2018) argued that pricing affect customer loyalty though the research did not focus on performance of the organization.

Retail banking aims at customer satisfaction at the same time making profits. If not careful, retail banks will concentrate on making profits without taking into consideration the changing needs of customers. Therefore, as they analyze their pricing strategies, they should be very careful in order to retain their customers. Pricing can present a lot of opportunities if it is well formulated and banking institutions can rapidly grows (Wruuck, 2013)

The pricing decisions are effected by a numerous of professional, economic, political and ideological arguments. The debate that accompanies this diversity of perspectives however should be focused on some sound principles. The aim of pricing is to establish a price optimum price that customer can afford and willing to receive after accounting for promotions and discounts among other cost. Pricing can determine the financial performance of the organization and the relationship with consumers (Bett, 2018). Therefore the act of pricing must be taken with all the seriousness it deserves so that it may yield useful results (Engelson, 2001). Pricing is an important component in any organization which deals with products or services. The study focus on cost plus pricing, value based pricing; price skimming and competition based pricing strategies.

Cost-plus pricing strategy is associated with margin gain above the cost of production. According to (Guerreiro, Comachione, & Kassai, 2012) cost plus pricing assist the

organization to maintain the price based on the cost of production whether in manufacturing or service based industry. Companies who are able to minimize the cost would be able to low prices of products (Dolgui & Proth, 2010). Cost plus methods are normally avoided based on insensitivity to customers' behavior as well as external economic environment. The cost plus method is also referred to as product plus methods where the cost of production associated with profit, financial expenses and cost of administration evaluated as unit cost so as to come with the price. According to Thi, Khanh, Thuy, & Thuy (2018) established that associated cost plus method with market share, information cost, level of influence to change of selling price, expenses and capacity of production. There is a need to investigate cost plus pricing technique as utilized in commercial banks to maintain expenses and production cost on check.

Value-based pricing strategy is based on the value which is dictated by customer preferences and quality of the product. The main agenda in value based pricing is associated with the value of the product for the customer (Netseva-Porcheva, 2017). Therefore, the pricing strategy is dependent on customers' needs which raise the value of the product rather than the product that affect the cost. The current marketing strategies focus more on the customer needs rather than the products. Therefore, when customer needs are satisfied, it leads to customer satisfaction which enables the customer to be loyal (Bett, 2018). Value based pricing are normally also linked with customer surveys and might a bit complex to evaluate the cost of the service.

Price Skimming strategy utilizes the concept that any consumer would pay a price that is below reservation prices. Skimming strategy is widely used pricing strategy where highest possible price is set for profits maximization for a new product facing high

demand; however the price can be lowered as results of competition from new entrance (Nyaga & Muema, 2017). Many organizations use skimming method while introducing new products. Where they set high prices for the product resulting to marginal profit is high which encourage competitors to develop similar product. Subsequently by lowering the company becomes competitive over the new substitute developed by the competitors (Shavandi & Zare, 2013). According to Muzammil (2014) the technique is not only for customer acceptance and profitability but also be competitive against the new entrance. Banks also engage in price skimming against their competitors so as to woo more customers to be loyal to a brand or product. These also are normally done when launching a new product in a competitive market. However, for skimming to take place there must be sufficient customer for the product, low unit cost, unfavorable prices and price association with quality.

Competition-based pricing strategy is used in competitive environment where the price is decided based on competitors. This is common where there are low differentiations of the products like banks or when medium share companies are competing with high-share companies (Sammut-Bonnici & Channon, 2014). Competition based pricing is common since majority of the organization are competing in the same market to slightly similar products. However, since majority use this price as means of improving and sustaining customers it is important also to evaluate the impact competition based pricing strategy on profitability of the organization.

1.1.2 Profitability of commercial banks

Profitability is the ability of a firm to generate more money than total cost of production. It is expressed in terms of numbers that measure "how much a company makes with what

it has or has taken in". It is a relative measure of business success and is usually expressed as an income to cost ratio. Simply expressed, it is Earnings minus Costs (Hutt & Speh, 2010).

According to Stierwald (2010), bank profitability is regarded as return on investment measured in terms of the resources the organization has. The ultimate objective of any organization is to generate profits in any investment they make. In this regard, any business operation must be gainful at long run in order to sustain its performance. Business continuity is highly dependent on whether it is able to sustain itself and generate profits for the investor. Furthermore, profits directly dictate the performance of an organization.

According to Boyd & Graham (1988), the entire financial structure of a firm is dependent on profitability ratio. The study pointed out that only if a company can earn profits will it survive in the long run. However, not all actions should be aimed at Profit maximization, irrespective of social impact. Maximization of profit is one of its important goals of every business venture. The existence, continuity and expansion of any business depend largely on its capacity to earn profit to serve and grow. Profit is a measured used in ascertaining efficiency of a company in generating earnings. For a business to be termed as profitable, it must generate excess income over its expenditure during a given time. The business must be able to generate adequate profit in relation to the Risk and Capital invested in it. It is therefore a matter that concerns the proprietor, managers, directors, shareholders amongst others.

According to Cracknell & Messan (2006) prices can be profitability driven which can be determined by profit growth, earnings and interests. Volume represents the sale growth, sales volume, sales revenues, and market share and capacity utilization. However, financial aspect based on dividends earnings, price earnings ratio, earning per share and cash flow can also be considered.

1.1.3 Commercial Banking Industry in Kenya

Due to the rapidly growing population in Kenya and the countries surrounding it, the commercial banking industry has also expanded. The growing awareness of the people has also contributed greatly to increase in number of commercial banks. People are now aware of the importance of the services being offered by the commercial banks, since they are also working towards identifying the needs of the customers. They have established various departments in the banks to cater for the growing needs of the customers. They do this in accordance to the Companies Act, the Banking Act, and the Central Bank of Kenya Act (PWC, 2010)

Central Bank of Kenya (CBK) regulates all the activities in the commercial banks. They act as banker to the commercial banks by ensuring that all commercial banks in the country open an account with them. They also ensure that all commercial banks serve their customers well and if the banks become bankrupt they act as lender of the last resort. The Central Bank also has a department referred to as clearing house where the commercial banks clear cheques between them.

The main purpose of commercial banks is to growth the amount of money available for lending to customers. Banks are currently training employees in marketing products

through cross selling and up selling. Long term relationship obtained through up and cross selling assist the organization to lower cost as well as improve profitability. Customer would benefit from service of the organization where also they would also have liable financial service provider (Central Bank of Kenya, 2012).

Kenya banking sector has grown over sometime as well as increased competition. According to CBK report there are 43 licensed commercial banks that have over 1,200 branches operation offices all over Kenya. The banking has face numerous growth as well as a fair share of challenges associated with capping of interest as well as legal issue. It considered as an important part of Kenya's economy with over 2.4 trillion asset and liabilities in 2018. Some of those of have face legal challenge includes former chase bank and former imperial banks leading to receivership and takeover. (Central Bank of Kenya Report, 2018).

Kericho County has Equity Bank, Standard Chartered Bank, Co-operative Bank, SBM Bank, Trans-National Bank, Sidian Bank, DTB Bank, National Bank, Barclays and Family Bank Kenya. Commercial banks in Kericho county faces stiff competition from growing number of SACCOs. Kericho being a tea growing zone has many Sacco's offering farmers loans and other services at favorable prices. If commercial banks in Kericho County fail to address their pricing strategies, most of the customers will prefer Sacco's hence affecting their profitability. In this regard, commercial banks need to evaluate their pricing strategies specifically cost-plus pricing, value-based pricing, pricing skimming and competition-based pricing strategy. These strategies are unique because it addresses both the interest of the customer that is customer satisfaction and profitability of the commercial banks.

1.2 Statement of the problem

Kericho County is dominated by highly competitive financial sectors such as banks, SACCOs and microfinance institutions fighting for customers. The introduction of SACCOs and other microfinance institutions have created stiff competition hence lowering the profits of the commercial banks. This has been attributed to commercial bank clients moving to SACCOs and microfinance institutions. With regard to this some commercial banks are recording losses. Some of the banks that have registered loss includes National Bank of Kenya reported a loss for the financial year 2014/2015 while the Cooperative bank of Kenya had reported a drop in their profits in 2014 resulting to restructuring. Since 1986, Kenya banking system has been affected by issues, which has led to the downfall of more than 40 commercial banks (Gitonga, 2014) with the recent ones in 2015 and 2016 being Imperial and Chase Banks respectively as well as National Bank of Kenya recently. According to the CBK report, lately there has been a decline in the growth of commercial banks in Kenya due to the emergence of Sacco's therefore decreasing their profits too. There are also decline of growth of total asset, deposits and loan while non-performing loan have increased (Kenya Bankers Association, 2018). This have led to decline in profitability in the banking sector which require research in the pricing strategies in place.

Most of the literature that are available concerning issues affecting commercial banks' profitability combined the micro and macro factors with few focused on internal factors, that effect profitability with most studies carried out in other countries(Kosmidou, Tanna, & Pasiouras, 2006; Grygorenko, 2009; Thi, Khanh, Thuy, & Thuy, 2018). Few studies if any have been done in Kenya and no research has been carried out in Kericho County

focusing on the role of pricing strategies on profitability. Some of the studies are done using different methodology which includes empirical evidence by Guerreiro, Comachione, & Kassai (2012) as well as Netseva-Porcheva (2017), Comparison analysis by Chantapong (2005), the uses of interview schedules by Njega (2016). However the current study addressed the weakness of the various studies by using descriptive research design where primary data were collected from banks using questionnaires. The study investigated the influence of pricing on the profitability of the commercial banks. Commercial banks in Kericho were focused based on its representation of more than 10 branches in a dynamic economy especially profitability in terms of net profits, earning, and interest.

1.3 Objective of the study

The study general objective and specific objectives were given the following;

1.3.1 General objective

The general purpose is to investigate the influence of pricing strategies and profitability of selected commercial banks in Kericho County, Kenya.

1.3.2 Specific objective

- i. To evaluate the influence of Cost-plus pricing strategies and profitability of the commercial banks in Kericho County, Kenya.
- ii. To determine the effect of Value-based pricing strategies and profitability of the commercial banks in Kericho County, Kenya.
- iii. To examine the effect of Price Skimming strategies and profitability of the commercial banks in Kericho County, Kenya.

- iv. To investigate how competition-based pricing strategies affects the profitability of the commercial banks in Kericho County, Kenya.

1.3.2 Research Hypothesis

Hypothesis of the researcher are;

H₀1: There is no significant effect of Cost-plus pricing strategies on profitability of the commercial banks in Kericho County, Kenya.

H₀2: Value-based pricing strategy has no significant affect profitability of the commercial banks in Kericho County, Kenya.

H₀3: There is no significant effect of price skimming strategy on profitability of the commercial banks in Kericho County, Kenya.

H₀4: There is no significant influence of competition based pricing strategy on the profitability of the commercial banks in Kericho County, Kenya.

1.4 Significance of the study

The findings from the research would help the banks to find out what influences the pricing decisions on their products to enable them get the best pricing policy. This would help them be at a higher level than their competitors and to also increase their market share in the finance and investments industry. These policies would not only increase profitability but make banking favorable to the customers.

Conclusions from the research would greatly help the government to refine its policy framework guiding bank's operations in order to increase their performance and safeguard fair competition. This would ensure that policies developed are not only fair

but take care of healthy competition within the banking industry. Therefore, the Central Bank of Kenya would be able to use the results and conclusion for better implementation and modification of policing existing.

The report from the findings of the study would act as reference for future studies and also be used to improve on the studies that was carried out related to this study. The study would be able to bring the knowledge gap existing and enable the research to gain more context for further research development.

1.5 Scope of the Study

The study used 11 commercial banks in Kericho County comprising of KCB, Equity, Standard Chartered, Co-operative, SBM Bank, Trans-national bank, Sidian,DTB,National bank, Barclays and Family Bank Kenya. The research was focusing mainly on the influence of pricing on profitability of commercial banks with a sample size of 62 respondents.

1.6 Limitation and Delimitation of the study

The study was costly since secondary data was also used. sQuestionnaires also took time to be responded to since most managers and employees have busy schedule in banking industry. The researcher visited them often so that most questionnaires were returned.

1.7 Organization of the Study

First chapter covers background of the study, statement of problem, study purpose, research hypothesis of the study, significance of the study and limitations. Chapter two presents, theoretical literacy, empirical review based on study objectives, knowledge gap of the literature and the conceptual framework. The third chapter entails research design,

target population and sample, collection of data, instruments to be used for collecting data, validity and reliability, data analysis procedures and ethical issues. Fourth chapter cover results and its discussion. The discussion includes descriptive and inferential statistics results. The fifth chapter entails the summary of the results which is used to develop conclusion and recommendation of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reveals the information concerning theories and concepts used in the research study. It also consists of empirical literature that was used to explain the existing gaps. Conceptual framework was also developed from existing theoretical as well as empirical literature.

2.2 Theoretical Review

There are four main different views on pricing: The economic theory, Marketing view theory, Efficient-Structure theory and Capital Asset Pricing Theory.

2.2.1 The economic theory

Adam Smith came up with the theory in 1759. It proposes that prices of product and services are highly dependent on their demand and supply. This theory is important in informing the study in that setting of prices is influenced by key factors such as competition, quality and development of new products (Yannelis, 2001). The price has been a function of profit; the theory anchors the determination of price through equilibrium between demand and supply.

The economic theory majorly assumes that organizations' main aim is to maximize on total profits in the long run. The firms are also aware of the amount of output and the price that each product or service will be charged. This therefore implies that optimum profit will be realized when marginal-revenue is equal to marginal-cost (Filippas & Gramstad, 2017). Very few business men would accept these assumptions as being

realistic for practical application. According to the theory of demand, a customer will buy more at a lower price than at a higher price. This makes it equally challenging due to impractical assumptions. Marketers are however supposed to know the elasticity of demand which is how the market would react to a price change (Yannelis, 2001).

Modern theories on pricing recognize the fact that businesses are not only keen on deriving profits but also increasing their sales, customer loyalty, share of market and labor relationships. What the customer chooses highly depend on the status of the individual, tastes and preferences of age mates, the advertisements being carried out also the displays from various shops (Glautier, 2001). The theory is applicable in a perfect market concept however in competitive market other factors like quality, values, brand loyalty and customer satisfaction can affect the price. Therefore, critics claim that due to dynamic of the modern market the old classical economic theory may not hold where the customer is the key in pricing strategy.

The theory forms the pillar of the study since it addresses the variables which are cost plus pricing strategy and competition-based strategy. It explains the interaction between the banks and its clients in pricing negotiations and therefore it informs the study on the best strategy to be adopted in pricing bank products.

2.2.2 Marketing mix theory

The theory was formulated by Jerome McCarthy in 1960. He proposed that business institutions direct their efforts towards customer satisfaction and give more attention to their market penetration strategies. Most of the researchers have conducted studies mainly focusing on products, promotion and placement but price have been little

researched and yet most of the banking institutions are facing problems resulting from pricing strategies.

According to Bett (2018) marketing mix through pricing strategy has significant effect on the organizational performance. Market mix theory also explains products, promotion and place which are also considered. While the pricing theories may be valuable in understanding fundamental economic relationships, there are weighty reasons why they are not suitable for the solution of practical pricing problems. Entrepreneurs believe that price is critical in determining profitability of business firms and hence the need to carry out more research on the subject matter in order to give insight that would help in decision making with regard to pricing strategies. The theory is significant to the study since it emphasizes on pricing element which is essential in banking industry (Ritter & Welch, 2002). According to Bett (2018) marketing mix concept does besides focusing in product, promotion and placement pricing plays an important role in the increasing customers and market share which finally translate to high profitability.

Market mix theory explains importance of price among the 4Ps' the products, promotion and place. This theory covers price as component of market mix but does not link it with performance. Hence there need to investigate pricing strategies on performance of the organization. The theory is important in pointing out the importance of pricing as form of marketing concept. However, it does not link price to profitability but to marketing. Therefore, there is need to investigate the pricing strategies on firm profitability.

2.2.3 Efficient-Structure theory

Demsetz came up with this theory in 1973. He argued that most business entities put prices of goods and services based on perceived values attached to them. This theory attempts to offer explanation on the determinants of profits of banking institutions. Demsetz (1973) identified that larger profits of banks were not as result of collusive behavior but it is because of high efficiency level that leads to higher market share influencing the profit share of the organization. In most cases, profitability of commercial institution is not only determined by concentration of market but also by the value of the services offered by the clients (Grygorenko, 2009). The theory is important in informing the study on value-based pricing strategy. The customers tend to compare prices of different services and their value. If the services or product has higher value, the prices are also expected to be higher.

Efficient structure theory backs up value based pricing strategy in that when the product's or service's value increases, the price charged on it also increases. This theory enables the organization to structure their pricing model based on the value of the product to the customers.

2.2.4 Capital Asset Pricing Theory

The theory was developed by William Sharpe in 1964 and its main proponents include DeBont and Thaler (1987). The basic principle in this theory is that risks can be either systematic or unsystematic. The theory further points out those systematic risks are caused by external factors beyond organization's control. These factors include government regulations through policies, inflation and political environment. On the other hand, the unsystematic risks are caused by internal factors which can be within

organization control and these factors include: quality management, public relations and entry of new competitors.

Based on the basic tenets of this theory, commercial banks experience several risks cause external factors which the banks may not be able to avoid but they can only be shaped by market forces. Since pricing is may be controlled by the commercial banks, it is considered to be the most tool affecting profitability of the banks hence should be the main focus. The theory is critical to the study as it addresses the aspect of price skimming strategy which is applied to newly developed products (Bett, 2018).

The theory is applicable as means of determining pricing based on external factors for systematic risk and internal factors for unsystematic risk. This enables the organization to determine market force before setting their price. Some concepts are adopted in competition based pricing, value based pricing, skimming pricing and cost plus pricing. However, the theory is not able to determine the impact of these pricing strategies on the profitability of the organization.

2.3 Pricing strategies

The study will focus on four pricing strategies which will include: cost-plus pricing, value-based pricing, price skimming and competition based pricing.

2.3.1 Cost-plus pricing strategies and profitability

Ferrell & Hartine (2008) underline the importance of considering costs seriously in setting prices. Most firms get losses because of their failure to compensate their direct and indirect production costs. The measurement of profits is usually based on the difference between the production costs and sales of the products or services. When a

product is scarce, it is considered an opportunity by most firms especially for service firms like airlines which have virtual inventory. Managers should also seek to understand cost behavior at different levels of production and as a function of accumulated production.

Cost based pricing is one of the commonly applied strategies when coming up with prices to charge a product. When all costs of producing a product or service are taken into consideration before pricing, an organization can easily estimate the profits it can get. The only best strategy of calculating profits is by analyzing all the costs incurred before coming up with the final prices (Ferrell & Hartine, 2008). For example, in commercial banks, withdrawals using ATM attract charges depending on transaction.

Nagle & Holden (1995) argue that a key step in pricing is to identify all the relevant costs when setting pricing and relevant costs are those that determine the profit impact of the pricing decision. Kibera (1988) notes that many businessmen resort to the simple formula to arrive at their price which eliminates judgment on the part of the price setter. Firms that use cost plus pricing strategies set prices by totaling their costs and adding a reasonable margin of profit. This approach however doesn't consider whether the market will pay the price or not.

2.3.2 Value-based pricing strategies and profitability

Hinterhuber (2008) defines value based pricing method as a mechanism centered on the value of a product or service to clients. Prices can be varied from one customer to another depending on the value that the product or the service gives to a customer. The managers should first analyze the cost incurred in producing a competitive product or a service and

also the views of customers on how they want the product or service. Then find out the things that make a product or service distinct from the other competing products and services. All these are put into consideration before coming up with a price to charge. This is evident in most commercial banks where such services as priority banking and advantage banking are offered to certain category of customers.

Dolan & Simon (1996) insist that pricing based on the value is one of the profitable forms of pricing if the value chain is managed effectively. It allows a firm to set its price relatively low and offers good quality services and customer extension services. An intriguing article in the November Harvard Business Review (2008) says that a value Price is directly proportional to the benefits the service or the product is giving the customer. This requires the firm to manage its value chains and supply chain in a way that allows it to focus resources on only those activities that deliver value in the most efficient way.

2.3.3 Price Skimming strategy and profitability

The Harvard Business Review (2008) pointed out that most companies derive profits of new developed products because of their costs tends to be high due to the research and development devoted in those products or services. Most of these products slowly penetrate the market through vigorous advertisements, promotional activities and personal selling hence making their prices high. It is also applicable effectively when a company has a very strong patent position or the product is difficult to imitate (Blinder, Elie & David, 2008).

Price skimming is regarded effective strategy in market segmentation. In this case market is categorized and prices modified for each category and the later reduced in stages while maximizing returns from each category. High profits can be achieved by subdividing the market into various sections and assigning a certain price for each stage (Kotler, 2002). For price skimming to apply, the demand curve should be inelastic in that a insignificant change in price should lead to a significant change in quantity demanded. Price discrimination is applied by using the features of the product and the market (Kotler, 2002).

2.3.4 Competition-based pricing and profitability

Porter (1998) indicates that a product is distinctive only until competition arrives, a situation which is inevitable. There is high competition when the existing firm is making a lot of profits and the business being undertaken is easy to start. This could be in the form of directly similar products, available substitutes, and unrelated products seeking the same resource. Commercial banks should analyze the prices and the quality of similar products and services of the competing firms. This information is used by the firm to come up with prices of their goods. Some of the competitive strategies commonly used include: low interest rate for loan products, increased loan repayment periods and prompt customer care services.

Firms must understand customer perceptions of the organization's and the competitor's offerings in order to develop good pricing decisions. For similar or substitute products, a competitor may adjust their prices and then other firms decide what price adjustments if any are necessary to retain their customers.

Lovelock & Wirtz (2010) indicates that when customer choice with larger number of option or substitute products increase customer sensitivity to the products. When there is high total expenditure to purchase and use a product, the demand for that product will be more elastic. An industry could be perfectly competitive, Oligopolistic, or Monopolistic. Competitor's pricing techniques is affected lead to firms increasing monitoring to ensure that the pricing are matched with the prices changes in the market.

Sometimes competitive market structure might affect the price flexibility prompting to rigidity of prices. This reduces the firms monitoring on price deviations. Another factor that might influence the flexibility of prices is the industry structure which might reduce price flexibility. The product life cycle of a firms offering in relation to pricing should also be well understood because different levels of competition will be experienced at different stages of the cycle. Pricing strategy sets the pricing change standards and hence affecting profitability of the organization (Plunkett, Fattner & Allen, 2008).

Competition based strategies are presented based on two premises by Nagle, (1987). One is based on buyer's reactions while the other on competitor reactions and as a result, several strategies is given. The projection of a differentiated product or service image, matching of competitor pricing, maintenance of a well-managed level of competition to avoid price wars with competitors and undercutting competitor pricing are given as approaches to competitor based pricing strategies

2.4 Empirical review

Various researches on what determines the profits of a firm have been conducted both locally and globally. In global arena, Athanasoglou and Delis (2005) investigated the

effects of industry-based, bank-based and macro-economic elements of commercial institutions profitability and established that bank-based elements apart from size, influence profitability of the banks. Additionally, Roman and Tomuleasa (2013) evaluated the effect that micro and macro factors have on the level of profitability of firms the new European Union society and recognized that specific factors in banks link inflation and GDP growth, capital adequacy and income affected profitability of commercial bank. Therefore, most research incorporates macro-economic and specific factors.

Sufian (2011) did a research on how the Korea Banks performed basing on their profitability in the year 1992-2003 and found out that the banking institutions experienced high profits when assets liquidity was low and further inflation as a role in returns of the banks. On the other hand, risks on credit and costs negatively affected the profits of the financial institutions. Additionally, it is revealed that averagely the banking industry in Korea had more returns during pre-crisis seasons as compared relatively post-crisis periods.

Aremu (2013) investigated factors determining profits in the banking sector in Nigeria. The findings of the study revealed that efficiency cost had little impact on bank profits. Nevertheless, adequacy of capital and loan risks statistically affected the banks' profitability during peak seasons. On the same note bank liquidity had insignificant impact on the banks' profits. Khaniwale (2015) further did a study on clients buying behaviors and elements affecting it using theoretical approach. He found close link between clients purchasing behavior and banks profitability. The research proved

significant relationship between buyer's behaviors and factors affecting them both internally and externally.

Locally Oyuga (2010) directed his study to alcohol manufacturers in Kenya and analysed how they formulated their pricing strategies. He found out that the demand of alcohol, the cost incurred in producing the product, competitors' prices and the knowledge that the buyers have about the product influenced pricing of alcohol. Nakitare (2013) studied determinants of pricing strategy among fiber operators in Kenya. The study revealed that cost, value, competition, the consumer and level of demand affect pricing of fiber services.

Ongore and Kusa (2014) studied the moderating effect of the management structure on how banks performed and established that moderating impact of management identity on bank's performance in financial perspective was not significant but the study focused more on the influence of ownership structure. Tsuma and Gichinga (2016) also analyzed the factors that influence the bank's performance in financial perspective with focus on National Bank of Kenya and found that capital adequacy, credit risk, inflation and interest rates influenced financial performance but the study focused on a single commercial bank, which may not be representative of the whole Kenyan banking industry.

Njenga (2016) investigated the impact of pricing mechanisms on the profits of food industries in Kenya. The study used interview schedule in data collection. The results indicated close linkage between prices and profits of the hotels. Jerono (2008) did a

study on how a customer might be affected by relationship marketing. She established that relationship marketing positively influences customer retention.

Kiprotich (2012) did a study on influence of 4ps that is product, price, place and promotion in Nakuru town. The research employed the research design called questionnaire design. The undertakings of the sale of oil are significantly determined by the 4ps. Each of the elements however carries a unique contribution to how the sales came out in the stations.

A study by Toni, Milan, Saciloto, & Larentis (2017) investigated pricing strategies on corporate profitability. Price policy is identified as the important in decision making since it affects company competitiveness in the market as well as corporate profitability. However, price has not been considered by researcher representing 2% of entire research papers as important component in the organization. Metal-mechanic companies were investigated in Brazil where 150 companies were assessed on cost based pricing, competition based pricing and value based pricing strategies. The finding revealed that companies that used value based price strategy had higher profit at high price level than low price level. The existing pricing policies had significant influence on the profitability of the organization. Therefore, the manager should not overlook on the price strategies while developing their pricing.

Guerreiro, Comachione, & Kassai (2012) determined the contribution of cost plus pricing to organization marginal gain. The study was based on the assumption that manufacturing companies utilize contribution margin per hour pricing method in determining the organization profitability. In order to produce desirable results, the study used empirical

evidence on pricing, action research where a case of manufacturing company with complex external competitive environment as well as critical review literature. The results indicated that pricing model that utilized contribution margin per hour had better earnings globally as compared with utilization of contribution margin in percentage terms.

Thi, Khanh, Thuy, & Thuy (2018) did a research on factors that influence the cost-based pricing in Vietnam feed mills companies. The data collected from a survey of 199 feed mills in Vietnam as at 2017. Accountants and administrators were given questionnaires where the following factors were considered that is market share, information cost, and level of influence of selling price, dissimilar expenses and capacity. Regression and analysis of variance were used in establishing relationship of the variables. The findings indicated that cost of information had a strong influence on cost based pricing method. Scales used in measuring quality of feed also affect cost based pricing while the lowest is the marketing share as well as selling price. The study recommended to adoption of cost management accounting system that can provide cost information for pricing decision. It also proposed the managers should be able to make viable price decision that would increase profits as well as market share.

Netseva-Porcheva (2017) assessed value based pricing as means of success factor in the competitive struggle. Market oriented has aimed at creating values that would increase the market share but not to satisfy customers. However, value based pricing address the issue of price based on the value of the product to the consumer. This would offer a competitive edge over other organization. The study based on empirical review the value of the product to the customer is associated with the competitiveness of the company.

There are two theoretical approaches to value based pricing. These are the economic value model and customer value model.

Nyaga & Muema (2017) investigated the effect of skimming pricing strategy on the profitability of insurance firms in Kenya. The variables were examined using descriptive research design which focused on 45 insurance companies operating in Kenya by the end of 2012. The study also reviewed data for the past 5 years. The target population was 900 sales employees where a sample of 90 respondents. Two employees were purposefully selected per insurance company. Questionnaires were deployed and analyzed using both inferential and descriptive statistics. The results from correlation and regression model used indicated a positive significant association between skimming pricing strategies used and the profitability of the organization.

Muzammil (2014) investigated market skimming in relation to technological and innovative products. Companies that produce innovative, quality and reputable products are able to adopt market skimming pricing strategies. The technology adopted must be acceptable by the customer and have high market value. Therefore, the study aimed at identifying factors associated with market skimming pricing. The target population were the users of personal computers where technology, innovation, brand image and product quality were considered in association with market skimming pricing. A survey was conducted using questionnaires as the data collection instrument. The findings revealed that technology, innovation, brand image and product quality had positive significant effect on market skimming pricings. The variables explained 27% of the market skimming pricings.

Gurus (2002) set out to establish the factors determining bank's profitability in Malaysia. The study utilized 17 commercial banks that were in operation between the years 1986 to 1995. The factors were classified into two namely micro and macro. Factors that affect an organization from outside included inflation rates, firm's capacity and firm ownership while internal factors were, the structure of the firm and the management. The factors that affect profitability included internal availability of enough resources, management style and quality of services. Results of the study showed that internal factors affected profitability of the banks positively whereas external factors had negative effects on the profitability of commercial banks.

Chantapong (2005) did a study on the operations of local and international banks in Thailand in the year 1995-2000. The findings revealed that majority of the commercial institutions in the Country had decreased provision of credit facilities due to economic crises. After economic crisis period, the banks' profitability started improving. The findings further indicated that international banks' profitability was slightly higher than that of the local banks.

Kosmidou, Tanna , & Pasiouras (2006) conducted research in the UK on the effects of bank's macro-economic factors on profitability of commercial institutions using return on average assets (ROAA) technique. The study used a sample of 224 respondents. The macro-economic factors studied included capital size, cost of assets, loan expenses and firm size. The findings of the study indicated significant relationship between capital size and profitability of the commercial entities. The other macro-economic factors such as firm size, cost of assets and loan expenses was found to affect bank's profitability negatively.

Naceur (2008), in his study investigate the effects of bank features and capital structure on banks' profits and net interest margins between 1980 and 2000 in Tunisia. The findings revealed that financial institutions with huge capital base tend to acquire mores profits and net interest margins. Furthermore, the results found out that privately owned financial institutions had more profits that government owned banks.

Dietrich & Wanzenried (2009) carried out a study on the profitability of the commercial institutions in Sweden. The research used 453 banks as a sample and was carried out between the year 1999 and 2006. The study categorized factors influencing banks' profitability into: bank internal factors, industrial factors and macro-economic factors. In this case, the results of the study demonstrated disparities of Swiss banks' profits and the factors mentioned above. The findings further revealed that foreign owned banks had more profits than the locally owned banks.

2.5 Summary of Literature Review and Research Gaps

Several studies that have been conducted focused on product development, promotion, and distribution. As indicated in literature above, most of these studies concentrated on industries dealing with tangible products with few focusing on commercial banks. Few studies have been done in Kenya focusing on pricing strategies and profitability of commercial banks despite of the role played by pricing mechanisms on profitability of the banks. Few studies have been done on pricing strategy and profitability, especially in Kericho County.

Table 2.1: Summary of Research Gaps

Researcher	Theme/topic/objectives	Research Findings	Research gaps	Focus of the Study
Toni, Milan, Saciloto & Larentis (2017)	Pricing strategies and corporate profitability.	Organization that utilized value based price strategy had higher profit at high price level. Hence pricing policies had positive significant effect on profitability.	It had contextual gap since it focused in metal mechanical companies.	It focuses on banking sector which more of financial service oriented.
Guerreiro, Comachione & Kassai (2012)	Contribution of cost plus pricing to organization marginal gain	Price model that utilize contribution margin per hour were better than contribution margin in percentage terms.	It used empirical evidence, action research on manufacturing companies as well as critical review.	The study uses descriptive survey design.
Thi, Khanh, Thuy & Thuy (2018)	Factors that affect cost based pricing in Vietnam based feed mills companies.	Cost of information affected cost based pricing as well as the scale use in measuring quantity of feeds.	Geographical gap since the study is done in Vietnam.	The study was done in Kericho County, Kenya.
Netseva-Porcheva (2017)	Value based pricing in competitive environment.	There are two models the economic value model and customer values that are used in competitive companies.	The methodological gap as result of using empirical evidence.	Primary data was collected using questionnaires.
Nyaga & Muena (2017)	Skimming pricing strategy on the profitability of insurance companies in Kenya.	Skimming pricing strategy had positive significant effect on profitability of the organization.	There was content gap which focus on skimming pricing strategy.	The current focused on pricing strategies.
Muzammil (2014)	Market skimming in technological and innovative products.	Technology, innovation, brand image and product quality had positive significant effect on market skimming pricings	Content gap since it assess factors guiding technological and innovative products into market skimming.	The study focused on pricing strategies on profitability of the organization.
Guru <i>et al</i> (2002)	Investigate the factors affecting the profits of the banks in Malaysia.	The findings from the study was that high profits in banks could be realized when expenses are managed efficiently.	Contextual gaps where the study focused on factor affecting profit	The study focused on pricing strategy.
Chantapong (2005)	Find out the differences and similarities of local and international banks in Thailand between 1995 to 2000	The findings of the study were that foreign banks are more profitable than the local banks.	Comparative analysis was used in analyzing data.	It employed descriptive statistics in analyzing data.

Kosmidou, Tanna & Pasiouras (2006)	Did a study on the effect of bank related features, external environments and the structure of the market in United Kingdom commercial banks' profitability.	The findings revealed that strength of capital , characterized by the equity to assets ratio, was the major factor in United Kingdom banks' profits.	Focused on and Net Interest Margins (NIM) and Return on Average Assets (ROAA) as a measure of bank's profitability	It employed net profits earnings and net shares in measuring profits of the banking industry
Sufian (2011)	examined the profits of the Korea banks between 1992-2003	Found out that the banking institutions experienced high profits when assets liquidity was low and further inflation as a role in returns of the banks. On the other hand, risks on credit and costs negatively affected the profits of the financial institutions. Additionally, it is revealed that averagely the banking industry in Korea had more returns during pre-crisis seasons as compared relatively post-crisis periods.	This study considered factors like inflation, macroeconomic factors and liquidity affecting profitability of commercial banks	It focused on net profits earnings and net sales
Grygorenko (2009)	Examined the effects of pricing strategies on how banks Ukraine performed.	It was found that there was connection between bank pricing strategy and its performance. Likewise, it was assessed that more banks with high profits were described by solid capitalization.	It utilized Instrument Variable Technique for analyzing data.	It used descriptive statistics for analyzing data.
Nakitare (2013)	Studied determinants of pricing strategy among fiber operators in Kenya	The research realized that cost, value, competition, the consumer and level of demand affect pricing of fiber services.	Concentrated on cost, value competition and their effects on pricing.	In addition the study focused on price and competition and their effects on profits.
Njenga (2016)	Effects of pricing strategies on profitability of hotel industry in Kenya	The findings indicated that there was relationship between pricing and profitability banks	Interview schedule was utilized in data collection.	Structured questionnaires was utilized for collecting data.
Jerono (2008)	conducted a study on how the customer was affected when relationship marketing practices are undertaken in commercial banks in Kenya.	She established that relationship marketing positively influence customer retention.	Focused on customer retention as a dependent variable.	Focus on profitability of commercial banks

Kamau (2013)	Impact on sales that is felt by the supermarkets in Nakuru town when products are differentiated.	The findings of the study were that when products are differentiated, sales increase.	The study focused on supermarkets which deal with tangible products and it was done in Nakuru town.	The study focus on commercial banks which deals with intangible products in Kericho County
Kiprotich (2012)	Impact of product, place, people and promotion on sales of selected service stations in Nakuru town	The marketing of oil is influenced by the 4ps.	The study focused on all elements of marketing mix	The present study concentrated only on the aspect of price.

2.6 Conceptual framework

Conceptual framework provides ideologies and concepts from the area of study guiding the objective used. This assists in connecting the dependent variable and outlining indicator for the independent variable. Goetz & LeCompte (2009), argued that conceptual framework is crucial in research as guiding tool. The independent variables for the study include: Competition-based pricing, Cost-plus pricing strategies, Value-based pricing strategies, and Price skimming strategy while the dependent variable is bank profitability.

Independent variables

Dependent variable

Pricing strategies

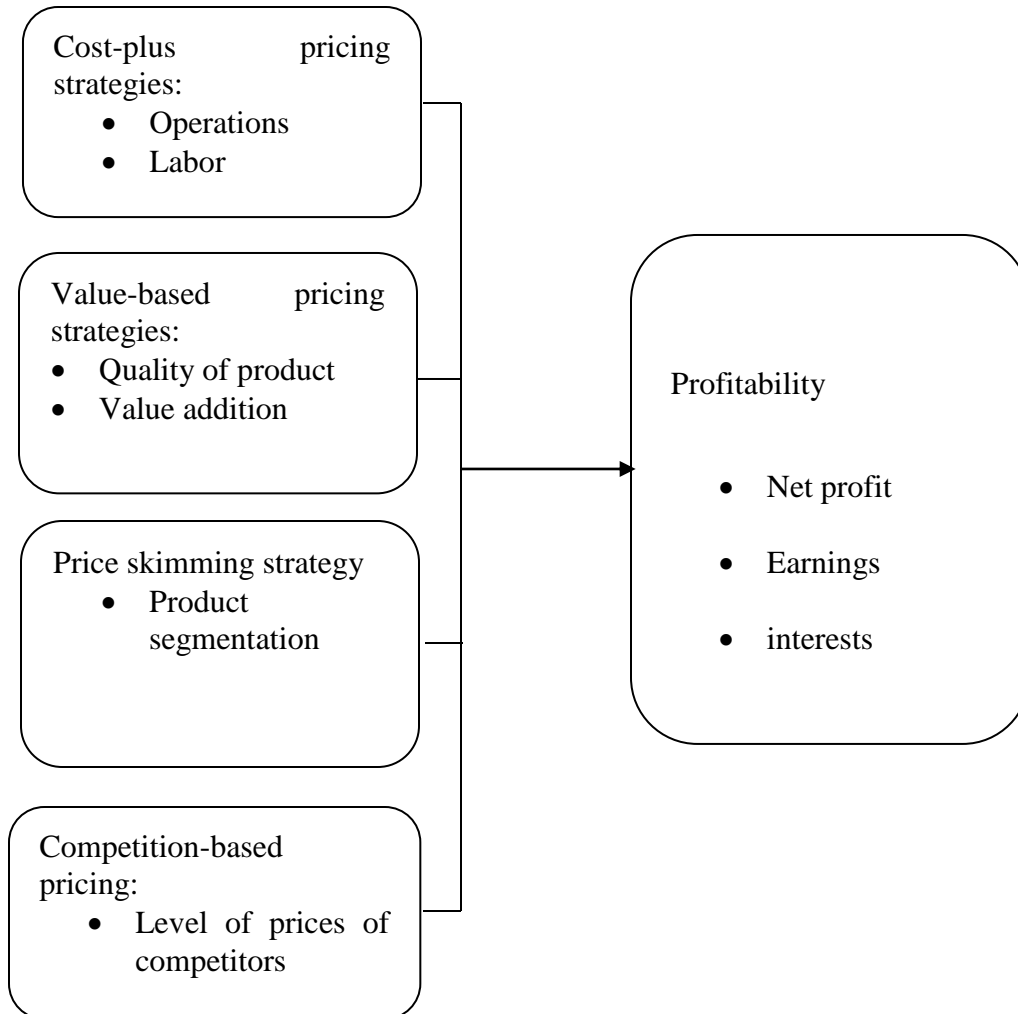


Figure 2.1: Conceptual framework of the study

Source: Author (2019)

Profitability of the bank is dependent on the kind of pricing strategies adopted by the commercial bank. In the context of the study, the profitability of commercial banks depends on the pricing strategies such as cost-plus, value-based, competition-based and price skimming strategies.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section represented research design, target population for the study, sample size and procedures, validity and reliability of the instruments, data analysis and ethical issues. This directs the process of collection and analysis of data for interpretation purpose for the study.

3.2 Research Design

This study used the descriptive survey design. The design was selected since the target population is distributed over a wide geographical area. By using this design, the researcher was able to get comprehensive data. Quantitative data assisted when comparing the data collected hypotheses testing while qualitative data assisted the researcher acquire information that was not captured in the quantitative data (Mugenda & Mugenda, 2003). The research sought to establish the effect of pricing strategies and the profitability of commercial banks.

3.3 Target Population

The target population is the population that the researcher is going to use to carry out the study (Mugenda & Mugenda, 2003). The target population was 62 comprising of members of the pricing committees, who include the heads of strategy and planning, the general managers, marketing managers, sales managers, and finance managers in KCB, Equity, Standard Chartered, Co-operative, SBM Bank, Trans-national bank, Sidian, DTB, National bank, Barclays and Family Bank Kenya. The units of measure are employees of

commercial banks in Kericho County which comprise of a total of 62 bank employees formed the target population of the study. The target respondents list comprised of top management team, who include the heads of strategy and planning, the general managers, sales managers, operations managers and finance managers. This information was represented in table 3.1.

Table 3.1: Target population

Bank name	Head of operations	General Managers	Finance officers	Sales officers	Total
KCB	1	4	4	4	13
Equity	1	2	3	2	8
Standard Chartered	1	1	2	2	6
Co-operative	1	2	2	2	7
SBM Bank	1	1	1	1	4
Trans-national bank	1	1	1	1	4
Sidian bank	1	1	1	1	4
National bank	1	1	2	2	6
Family Bank Kenya	1	1	2	2	6
DTB	1	1	1	1	4
Barclays bank	1	1	2	2	6
				Total	62

3.4 Sampling design

Kothari (1985) explained that sample size refers to the representation of the targeted population which involving the actual units of research participants. Census sampling was employed selecting the respondents. The method was chosen because the target population is not large, it gives high accuracy and the researcher has enough time to collect data. In this case all the target population was the respondents to the study.

3.5 Data Collection

Data collection was primarily done using questionnaire with both closed and open ended questionnaires. The first part provided a profile of the respondents; the second comprised questions regarding cost plus pricing strategy, Value-based pricing strategy, Price skimming strategy, the competition-based pricing strategy and finally profitability of commercial banks. The advantages of using personally-administered questionnaires are that in-depth information was obtained from the respondents without taking a lot of time. (Mugenda & Mugenda, 2003).

3.5.1 Validity of the instruments

According to (Mutai, 2003) validity is refers to the point results from the research instrument represent the actual data required for the study. It tests more of the accuracy of the instrument where the question asks in the research instrument measure the truth of the study (Mugenda and Mugenda, 2003). The study used gave to supervisor to improve on the instrument as well as statistical expert so as to improve on validity. Further scrutiny was achieving after peers was given to perfect on the structure and content validity.

3.5.2 Reliability of the instruments

Reliability is the extent to which the instruments used for research give the same results when used repetitively (Mugenda & Mugenda, 2003). Instruments are said to be reliable when after measuring, consistent results are achieved. In order to test reliability a pilot study of 10% of entire sample frame was conducted. Therefore, study conducted a pilot study of 6 questionnaires. The SPSS was applied in measuring reliability coefficient (Reid, 2006). The results were represented in table 4.1.

3.6 Data Analysis

After the data has been collected, to ensure that there is consistency, questionnaires were edited. Inferential statistics was used to analyze the data and measures of central tendency such as mean and standard deviation was also applied. In addition, version 21.0 statistical Package for Social Sciences assisted in analyzing data.

Analysis of Variance (ANOVA) as well as multiple linear regressions was used to test the hypothesis of the study. The regression model will be diagnosed for heteroscedacity, multiple collinearity and auto collinearity. Multi-collinearity will be tested for using variance inflation (VIF) or tolerance where test criteria will be given by $VIF < 10$ for multi-collinearity according to Meryer, Guarino and Gamst, (2007). This gave both relationships of individual independent variable and general correlation to dependent variable. The following model was:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \text{ Where:}$$

Y is the profitability of commercial banks.

The slope is represented by β

Autonomous profits are represented by α

X represents a set of pricing strategies measured against the profitability of commercial banks.

In this case,

X1 as the cost-plus pricing strategies;

X2 as the value-based pricing strategies;

X3 as price skimming strategies;

X4 as competition-based pricing strategies

ϵ as error term

The outcomes were illustrated in frequency means, charts, and graphs and other statistical means of presentation. However before using multiple linear regression diagnosis of auto correlation and multi-collinearity will be tested using $1.5 < d < 2.5$ and $VIF < 10$ respectively.

Table 3.2: Operationalization and measurement of variables

Variables	Variable Type	Indicators of Variable	Quantification of variables	Measurement of the variables
Pricing strategies	Independent	Cost-plus pricing	Service charges Amount of interest	Rating scale of 1-5 Ordinal
		Operations		
		Cost of labour	Amount incurred in salaries	Rating scale of 1-5 Ordinal
		Value-based pricing	No. of satisfied customers Level of service delivery	Rating scale of 1-5 Ordinal
		Quality		
		Value addition	No. of additional services provided	Rating scale of 1-5 Ordinal
		Price skimming	No. of new products Types of accounts	Rating scale of 1-5 Ordinal
		Product segmentation		
		Competition-based pricing	No. of products with different prices	Rating scale of 1-5 Ordinal
Level of pricing				
Profitability	Dependent	Net profit Earnings before interests' tax and Net shares	Amount of profits in monetary terms Amount earned Level of interest	Rating scale of 1-5 Ordinal

Source: Researcher (2019)

3.7 Ethical considerations

NaCoSTI and Kenya University research permits were obtained before the research. Permission was also sought from individual banks using a cover letter to allow the researcher to collect data. The researcher assured the respondents confidentiality through anonymity. The researcher also allowed the respondent to participate willingly in the research. The researcher also informed the participants the outcome of the study in case they would need it. Moreover, in case the respondent wanted to withdraw from answering the questions at any time, they were free to do so.

CHAPTER FOUR

DATA ANALYSIS, RESULT AND DISCUSSION

4.1 Introduction

The section contains response rate, demographic data of the respondents, descriptive statistic per objective of the study and inferential statistics. Data presentation and interpretation of analyzed data were also done subsequently in each subsections. The interpreted data were critic according to the set objectives.

4.2 Response Rate

The number of questionnaires extracted from respondents was 58(94%). This is beyond the threshold of 80% which Mugenda & Mugenda (2003) claimed to be excellent.

4.3 Reliability Test

The questionnaires were also tested for reliability based on section based on objective of the pricing strategies and profitability as shown in the table 4.1.

Table 4.1 Reliability test (SPSS)

Variable	Cronbach's Alpha	Number of Questions
Cost Plus Pricing	0.821	5
Value-Based Pricing Strategies	0.844	4
Price Skimming Strategy	0.741	4
Competition-Based Pricing	0.728	5
Profitability	0.801	5
Average	0.787	

Source: Research data (2019)

The findings from indicated that all the variables had Cronbach Alpha constant that was more than 0.7 with an average Cronbach of 0.787 (Reid, 2006).

4.3 Respondent's Information

The general respondent's information was obtained pertaining to gender, education and duration of working with banking institution. The information was interpreted as table 4.2;

Table 4.2: Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	33	56.9	56.9	56.9
	Female	25	43.1	43.1	100.0
	Total	58	100.0	100.0	

Source: Research data (2019)

Gender demographics indicated a larger number of male 33 representing 56.9% followed by female with 25 representing 43.1% of respondents. The proportion is indicated in the figure 4.1.

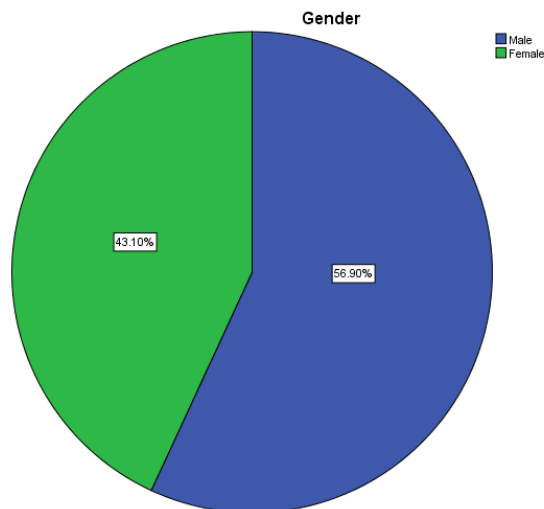


Figure 4.1: Gender

Source: Research data (2019)

The different of gender in Kenya mainly is based on cultural and social factors but the margin between is about 11% of the respondent. It shows improvement of working women.

Table 4.3: Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-25 years	23	39.7	39.7	39.7
	25-35 years	35	60.3	60.3	100.0
	Total	58	100.0	100.0	

Source: Research data (2019)

Table 4.4 indicates that 18-25 years were 23 representing 39.7% and 25-35 years were 60.3%. Hence the mid age between 25-35 years was the highest in groups.

Table 4.4: Education Level

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Diploma	4	6.9	6.9	6.9
	Undergraduate Degree	45	77.6	77.6	84.5
	Post Graduate Degree	9	15.5	15.5	100.0
	Total	58	100.0	100.0	

Source: Research data (2019)

Table 4.3 reveals that the most of the employees in commercial in Kericho are undergraduate who 45 respondent representing 77.6% were. The post graduate was 9(15.5%) and diploma 4(6.9%).

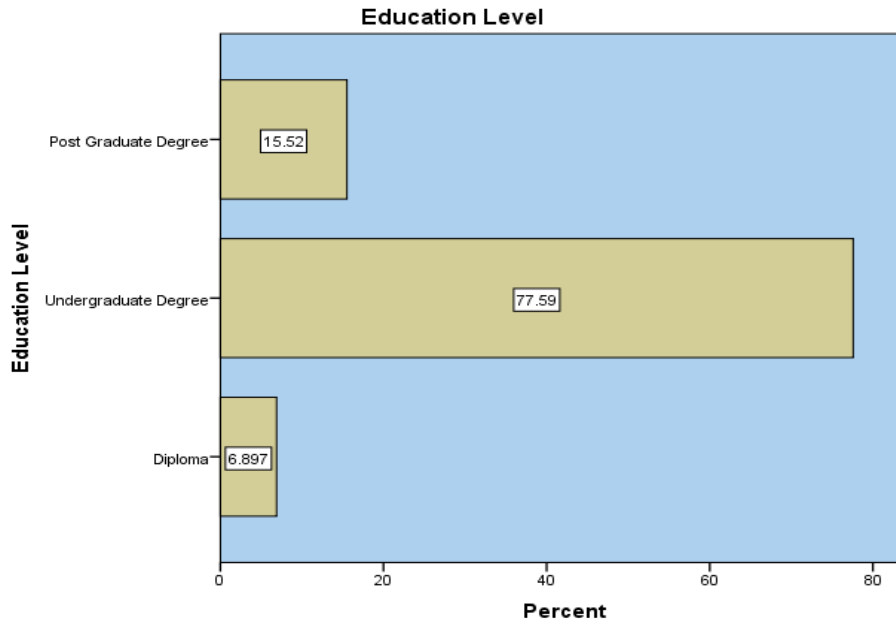


Figure 4.2: Education Level

Source: Research data (2019)

Education levels were normally distributed with undergraduate containing the largest portion of employees. It implies a high level of education literacy in banking sector.

Table 4.5: Duration of Working in the Institution

	Frequency	Percent (%)	Valid Percent(%)	Cumulative Percent(%)
Valid	0 to 5 years	18	31.0	31.0
	6 to 10 years	23	39.7	70.7
	11 to 15 years	17	29.3	100.0
	Total	58	100.0	100.0

Source: Research data (2019)

Information extracted pertaining to duration of working in the banking institution indicated that most of the respondents had stayed for the period of 6-10 years who 39.7% of the responded while 31.0% and 29.3% have stayed for 0-5 years and 11-15 years respectively.

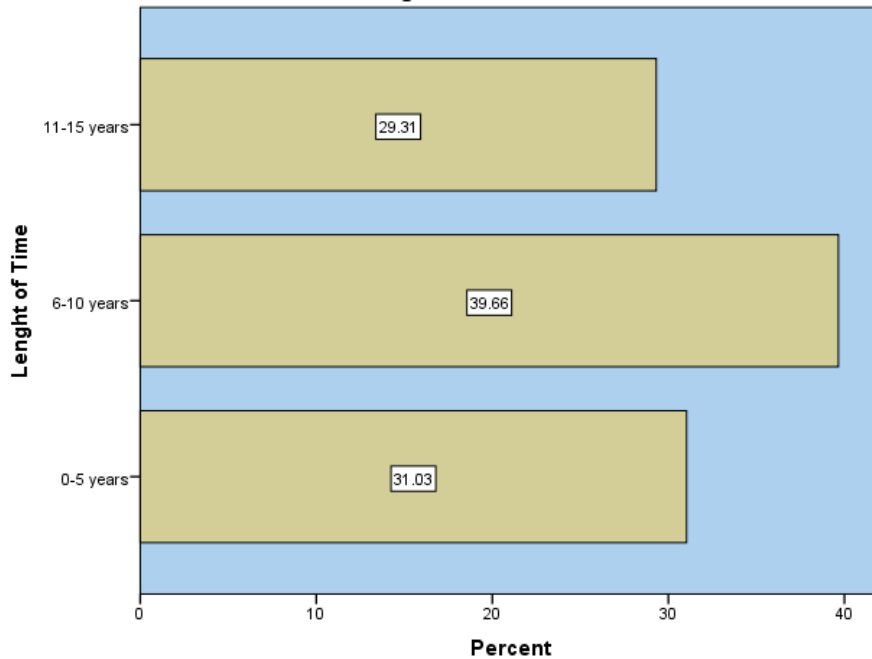


Figure 4.3: Work Duration

Source: Field data (2019)

Mode of 6-10 years represents the largest number of employee who have stayed in the banking institution. The turnover period for employees is about 8 years and the turnover is moderate (mode of 8 years).

4.4 Pricing Strategy and Profitability Results

The pricing strategies were analyzed and the information obtained included frequencies, percentages, mean and standard deviation.

4.4.1 Cost Plus Pricing Strategies and Profitability

This assisted in descriptive and ANOVA interpretation of the research. The tables were outlined objective-wise where SA = Strongly agree (5), A = Agree (4), N = Neutral (3), D = Disagree (2) and SD = Strongly Disagree (1) as follows;

Table 4.6: Cost-Plus Pricing Strategies

Question	5 (SA)	4 (A)	3(N)	2 (D)	1(SD)	Mean	S.D
The price of products/service allows you to recover the basic costs of operations in opening branches	23(39.7%)	35(0.0%)	0(0.0%)	0(0.0%)	0(0.0%)	4.40	0.49
Customer use ATMS	0(0.0%)	27(46.6%)	31(53.4%)	0(0.0%)	0(0.0%)	3.47	0.50
Different brands in the bank contribute to profitability	0(0.0%)	22(37.9%)	36(62.1%)	0(0.0%)	0(0.0%)	4.38	0.49
Cost of labor is reflected in salaries paid	9(15.5%)	49(84.5%)	0(0.0%)	0(0.0%)	0(0.0%)	4.16	0.37
Cost-plus pricing is effective in enhancing profitability	9(15.5%)	44(75.9%)	5(8.6%)	0(0.0%)	0(0.0%)	3.93	0.49

Source: Research data (2019)

Results on cost-plus pricing strategies were outlined in table 4.5 where the price of the produce or services allows organization to recover the basic costs of operations in opening branches to a greater extend (mean of 4.40). Based on low variation (standard deviation of 0.49) the price was significant in recovering operation cost.

Most of the customers preferred using ATMs (mean of 3.47) and hence the charges on ATM were also contribution of cost of technology. Customer preference on ATM was also low (standard deviation of 0.50). Customer using ATMs would reduce the work of tellers as well as trim the number of employees reducing cost of operations.

Brands used on product contributed to profitability (mean of 4.38). Brand strength on profitability had low variation (standard deviation of 0.49). It implies that branding important strategy despite increasing cost of operation it significantly contributed to the institution profitability.

The study investigation of cost of labor showed that it reflected in salaries paid (mean of 4.16). It had a low variation on salaries paid (standard deviation of 0.37). Cost factoring is salaries is important so as to cut cost on allowance bonus and benefit to those who are entitle based on work done. Mostly the marketing department was awarded using cost accounting concepts.

Cost-plus pricing was then found to be effective in enhancing profitability (mean of 3.93). The variation of cost-plus was low (standard deviation of 0.49). Cost-plus pricing significantly affected profitability of the bank institution. Guru *et al* (2002) argued that expense reduce profitability of the organization which concurs with the findings of the study. Sufian (2011) examined on profit and found that cost negative affects the profit of the financial institution.

Table 4.7: ANOVA on Cost-plus Pricing and Profitability

			Sum	ofdf	Mean	F	Sig.
			Squares		Square		
Profitability *	Between	(Combined)	3.215	2	1.607	8.683	.001
	Groups						
Cost-plus pricing	Within Groups		10.182	55	.185		
	Total		13.397	57			

Source: Research data (2019)

Cost-plus pricing significantly affects the profitability of the bank ($F = 8.683$, $P=0.01<0.05$). Hence cost plus pricing is an important pricing strategy in determining profitability.

4.4.2 Value-Based Pricing Strategies and Profitability

This assisted in descriptive and ANOVA interpretation of the research. The tables were outlined objective-wise where SA = Strongly agree (5), A = Agree (4), N = Neutral (3), D = Disagree (2) and SD = Strongly Disagree (1) as follows;

Table 4.8: Value-Based Pricing

Question	5 (SA)	4 (A)	3(N)	2 (D)	1(SD)	Mean	SD
Bank provides quality products as per the number of satisfied customers	17 (29.3%)	41 (70.7%)	0(0.0%)	0(0.0%)	0(0.0%)	4.29	0.46
Quality of product and services affect profitability of bank	13 (22.4%)	40 (69.0%)	5 (8.6%)	0(0.0%)	0(0.0%)	4.14	0.54
Value addition in terms of additional service provided play a role in profitability	9 (15.5%)	27 (46.6%)	22 (37.95)	0(0.0%)	0(0.0%)	3.78	0.70
Employ value addition strategies in bank's products and services	9 (15.5%)	27 (46.6%)	22 (37.9%)	0(0.0%)	0(0.0%)	4.41	0.50

Source: Research data (2019)

Value based pricing results indicated that banks provided quality products as per the number of satisfied customers (mean of 4.29). Product quality variation had low variation (standard deviation of 0.46). Quality of the product is important both to customer which replicate its benefit to the organization.

The quality of product and services had effect on banks profitability (mean of 4.14). Variation was low on profitability (standard deviation of 0.54). The value based on quality affect the profit of the organization.

The findings on value additional service provided as value addition indicated to play a role in organization profitability (mean of 3.78). It was established that the variation on profitability was low (standard deviation of 0.70). Values addition encourages provability of the organization.

The banking institution employed value addition strategies in mainly the bank's products and services (mean of 4.41). A standard deviation of 0.50 indicated low variation of value addition strategies provided on products. It means that value addition was practices and contributed to bank's products and services.

Table 4.9: ANOVA on Value Addition Pricing Strategy and Profitability

			Sum of Squares	df	Mean Square	F	Sig.
Profitability * value addition strategies	Between Groups	(Combined)	.968	1	.968	4.360	.041
	Within Groups		12.429	56	.222		
	Total		13.397	57			

Source: Research data (2019)

Values addition pricing had significant influence on profitability (F = 4.360, P = 0.041 < 0.05). Value based pricing affect the profitability to some extent.

4.4.3 Price Skimming Strategies and Profitability

This assisted in descriptive and ANOVA interpretation of the research. The tables were outlined objective-wise where SA = Strongly agree (5), A = Agree (4), N = Neutral (3), D = Disagree (2) and SD = Strongly Disagree (1) as follows;

Table 4.10: Price Skimming Strategy

Question	5 (SA)	4 (A)	3(N)	2 (D)	1(SD)	Mean	SD
Product segmentation leads to the development of new products	17 (29.3%)	36 (62.1%)	5(8.6%)	0(0.0%)	0(0.0%)	4.21	0.59
Product segmentation affect profitability	0(0.0%)	36 (62.1%)	22 (37.9%)	0(0.0%)	0(0.0%)	3.62	0.49
Product are segmented based on the returns of the products	23 (39.7%)	31 (53.4%)	4(6.9%)	0(0.0%)	0(0.0%)	4.33	0.60
Banks uses product segmentation to control profit through interest gained	13 (22.4%)	37 (63.8%)	8(13.8%)	0(0.0%)	0(0.0%)	4.09	0.60

Source: Research data (2019)

Table 4.8 indicates results of price skimming strategy. Product segmentation led the banks to develop new product (mean of 4.21). Product segmentation was low in variation (standard deviation of 0.59). Skimming based on the product segmentation enabled the banking institution to develop new products. The segmentation of product somehow enabled the bank to be profitable (mean of 3.62). It indicated a low variation (standard deviation of 0.49) on profitability. It implied that to some extent segmentation improve profitability of the organization.

Each segment product would produce their own returns (mean of 4.33). Variation in product segmentation was low (standard deviation of 0.60). It is important for product segment so that product that is not profitable would be modified or closed. Banks used product segmentation to control profit through interest gained to a greater extent (mean of 4.09). The variation was low concerning banks use of product segmentation (standard

deviation of 0.60). Grygorenko (2009) pricing strategies affected profitability. Kamau (2013) argued that differentiated differentiation influenced sales.

Table 4.11: ANOVA on Price Skimming Strategy and Profitability

		Sum of Squares	df	Mean Square	F	Sig.
Profitable * Price Skimming Strategy	Between Groups (Combined)	3.817	2	1.908	10.955	.000
	Within Groups	9.580	55	.174		
	Total	13.397	57			

Source: Research data (2019)

Table 4.14 indicated that price skimming strategy significantly affected the profitability of the organization (F= 10.955, P = 0.000 <0.05). Price skimming strategy affects organization profitability.

4.4.4 Competition-Based Pricing and Profitability

This assisted in descriptive and ANOVA interpretation of the research. The tables were outlined objective-wise where SA = Strongly agree (5), A = Agree (4), N = Neutral (3), D = Disagree (2) and SD = Strongly Disagree (1) as follows;

Table 4.12: Competition-Based Pricing

Question	5 (SA)	4 (A)	3(N)	2 (D)	1(SD)	Mean	SD
Bank take into consideration level of prices of different products as compared to that of Competitors	23 (39.7%)	35 (60.3%)	0(0.0%)	0(0.0%)	0(0.0%)	4.40	0.49
Bank consider competitors pricing strategy in pricing its products and services	26 (44.8%)	32 (55.2%)	0(0.0%)	0(0.0%)	0(0.0%)	4.45	0.50
Bank use competitive pricing to differentiate the product	14 (24.1%)	39 (67.2%)	5(8.6%)	0(0.0%)	0(0.0%)	4.16	0.56
Competitive pricing has enhanced the value of bank in terms of shares	13 (22.4%)	45 (77.6%)	0(0.0%)	0(0.0%)	0(0.0%)	4.22	0.42

Source: Research data (2019)

On competitive pricing as indicated in table 4.9. Bank took into consideration level of prices of different products in comparison to their competitor, considered the competitors pricing strategy on products and service, used competitive pricing to differentiation products and utilized the competitive pricing to enhance the banks equity (mean of 4.40, 4.45, 4.16 and 4.22 respectively). The variations were also low (standard deviation of 0.49, 0.50, 0.56 and 0.42 respectively).

Table 4.13: ANOVA on Competitive Pricing Strategy and Profitability

		Sum Squares	ofdf	Mean Square	F	Sig.
Profitable Competitive pricing strategy	*Between Groups (Combined)	.050	1	.050	.208	.650
	Within Groups	13.347	56	.238		
	Total	13.397	57			

Source: Research data (2019)

Competitive pricing strategy was not significant on organizational profitability (F = 0.208, P = 0.650 > 0.05). Hence competitive pricing strategy does not affect organization profitability.

4.4.5 Price Strategy and Profitability

This assisted in descriptive interpretation of the research. The tables were outlined objective-wise where SA = strongly agree (5), A = Agree (4), N = Neutral (3), D = Disagree (2) and SD = Strongly Disagree (1) as follows;

Table 4.14: Profitability

Question	5 (SA)	4 (A)	3(N)	2 (D)	1(SD)	Mean	SD
Amount of net profit in monetary terms has improved due to different levels of pricing	14 (24.1%)	44 (75.9%)	0(0.0%)	0(0.0%)	0(0.0%)	4.24	0.43
Level of pricing have enhanced the earning and return of the bank	17 (29.3%)	41 (70.7%)	0(0.0%)	0(0.0%)	0(0.0%)	4.29	0.46
Pricing strategy have improved the banks' interest gained	24 (41.4%)	34 (58.6%)	0(0.0%)	0(0.0%)	0(0.0%)	4.41	0.50
The banks pricing strategy has increase the value of share of the bank	8 (13.8%)	32 (55.2%)	18 (31.0%)	0(0.0%)	0(0.0%)	3.83	0.65
Pricing strategy enables the banks to become more profitable	21 (36.2%)	37 (63.8%)	0(0.0%)	0(0.0%)	0(0.0%)	4.36	0.48

Source: Research data (2019)

Amount of net profit in monetary terms has improved to some extent due to different levels of pricing (mean of 4.24). Level of pricing played a major role in enhancing the earning and returns to the bank (mean of 4.29). Pricing strategy have improved banks the bank's gains from interest (mean of 4.41). The banks pricing strategy has increased the value of share of the bank (mean of 3.83). Pricing strategy enabled the bank to become more profitable (mean of 4.36).

4.5 Summary of Price Strategy and Profitability

4.5.1 Diagnostic Test

It also found that the variable regression model was not correlated with Durbin-Watson of 2.00 which is within 1.5-2.5 recommended for independency of the variables. Multi-

collinearity was also examined using VIF where the result revealed that there was no multi-collinearity since all values of VIF were less than 10. Based on the ANOVA values there existed linear relationship between the variable ($P < .05$).

4.5.2 Multiple Regression Results

Regression model was used to make interpret the relationship between the variables. The following results were obtained with the interpretation as follows;

Table 4.15: Coefficient of Determination

Model	R	Adjusted R Square	Std. Error Change Statistics				Sig.	Durbin-Watson		
			Estimate	Change	df1	df2				
1	.891 ^a	.793	.778	.22858	.793	50.849	4	53	.000	2.000

a. Predictors: (Constant), Competitive pricing, Cost-plus pricing, value addition strategies in bank's products and services, Price skimming strategy

b. Dependent Variable: Profitability

Source: Research data (2019)

There was strong correlation between pricing strategies and profitability. The variable contributing to the variation of the profitability as result of pricing strategies was 77.8% of the data while other variable other than pricing strategy was 22.2%. Pricing strategy affected significantly the profitability of the organization ($P = 0.00 < 0.05$).

Table 4.16: Summary Regression Model

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error				Beta	Tolerance
1	(Constant)	7.769	.705		11.014	.000	
	Cost-plus pricing	1.000	.088	1.012	11.347	.000	.490
	value addition pricing strategies	1.000	.112	1.025	8.946	.000	.297
	Price skimming strategy	0.891	.119	.901	5.501	.002	.178
	Competitive pricing	-.692	.204	-.601	-3.398	.051	.125

a. Dependent Variable: Profitable of Organization

Source: Research data (2019)

The multiple regression line was given by Profitability (Y) = 7.769+ 1.000 X₁ + 1.000X₂ + 0.891X₃ – 0.692X₄+Error, where X₁, X₂,X₃ and X₄ represent cost-plus pricing, values addition pricing, price skimming strategy and competitive pricing respectively. It implies a unity increase in cost-plus pricing; values addition pricing, price skimming strategy and competitive pricing would imply an increase of 1 unit, 1unit, 0.891 units and -0.692 units on profitability respectively.

Cost-plus pricing strategy had a positive significant coefficient (B=1.00, P-Value =.00<.05). This implies that cost-plus pricing strategy contributed positively to the profitability of selected commercial banks in Kericho County. The results concur with Guerreiro, Comachione, & Kassai (2012) who found that cost plus had positive significant influence on profitability. However, the pricing model used contribution margin per hour were better than margin in percentage terms.

Value pricing strategy had a positive significant coefficient (B=1.00, P-Value =.00<.05). The results indicated that value addition pricing strategy had positive contribution to the profitability of selected commercial banks in Kericho County. The findings concur with Toni, Milan, Saciloto, & Larentis (2017) who found that there was positive influence of pricing policies which was value based in majority metal mechanic companies on corporate profitability.

Pricing skimming strategy had a positive significant coefficient (B=.891, P-Value =.002,.05). Therefore, the regression result indicates that pricing skimming strategy has a positive significant influence on commercial banks in Kericho County profitability. The results are similar to Nyaga & Muena (2017) who found that there was positive

significant association between skimming pricing strategies used and the profitability of the organization.

Competitive pricing strategy had a negative insignificant coefficient ($B = -.692$, $P\text{-Value} = .051 > .05$). Competitive pricing strategy does not profit of selected commercial banks in Kericho County. The findings differ from Nakitare (2013) who found positive significant relationship between competitive pricing strategy and profitability of the firm.

Multiple regression results are concurring with ANOVA finding which make cost-plus pricing, values addition pricing and price skimming strategy to be significant predictors in price strategy that has significant influence to the profitability of the organization. It implies all null hypothesis for objective one, two and three were rejected and alternative hypothesis adopted. Njenga (2016) and Nakitare (2013) concurs with study that pricing strategy and profitability of the organization. It also concurs with Grygorenko (2009) that banks pricing strategy influenced significantly the performance of the commercial banks.

Competitive pricing strategy null hypothesis was accepted since there was no significantly effect of the pricing strategy on profitability of the organization the result from regression concurs with ANOVA.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This section summarizes findings which are then used to draw conclusions and recommendation of the study. The summary represented the findings demographic and the objective results.

5.2 Summary

The segment summaries demographic and objective results obtained. The demographic results indicated that male gender was slightly more than female holding undergraduates' degrees. The employment retention was also moderate from working duration research data. The research also obtained as per objective which are given as below;

5.1.1 Cost-Plus Pricing Strategies

The prices of product assisted in recovery of cost of opening branches. Customer usage of ATMs provided the banks with profit. The commercial banks used different brands as well as costing labor to enhance on profit and hence making cost-plus pricing to increase profitability of the commercial institution. The cost-plus pricing was significant on profitability based on ANOVA results which was also reflected in the multiple linear regression variables as the high unit predictor on profitability of the organization.

5.1.2 Value-Based Pricing

Value based pricing base on investigation enable indicated that the bank provided quality products in reference of customers joining the product. The product quality also affected the profitability of commercial bank. Value addition in terms of additional service played

crucial role in profitability. Due to bank utilizing the strategy it has significantly affected the profitability of the bank. It was shown from both ANOVA and regression results.

5.1.3 Price Skimming Strategy

Price skimming strategy was done in the commercial bank based on product segmentation leading to the development of new products. Product segment affected the profitability of the organization as well as returns of the individual products. Price skimming strategy significantly affected the profitability of the organization from ANOVA and regression results.

5.1.4 Competition-Based Pricing

Bank takes into consideration level of prices of different products as compared with competitors. They also consider competitors pricing strategy hence use it to differentiate the product. Competitive pricing has enhanced the value of bank in terms of shares. Competition based pricing has no significant influence on profitability of the commercial banks based on ANOVA and regression results.

5.2 Conclusions

The study concluded that price of product or service must enable organization to cover for cost. There is need for organization to cover all cost so as fast to breakeven with expenses as well as consider considerable prices that would also attract customers. Banks encourage customers to utilize ATMs as source of returns. This enable the banks to reduce long queues in the banks and encourage easy access of service by customers. However, this extensive service assisted the banks to gain ATM service for withdrawals from the account. It also found that different brands contributed to profitability of the

banks. Hence adding cost to price enables the organization to gain more profit. Therefore, there was positive significant effect of the cost price on the commercial banks profitability.

The study also found that quality product can be evaluated on the number of customers satisfied as well as it affects the profitability. Quality of the banks product assisted the banks to increase the number of customers more since it attracted new customers. Customers also values added service which improve customer experience in the commercial banks. Value addition influence profitability which has made most banks to adopt the strategy. Therefore, customer has risen to be very important in development of product so as to improve the value and acceptance of the product to the consumer. Therefore, values based pricing strategy has a positive significant impact on the profitability of the commercial banks.

The study concluded also that price skimming strategy had positive significant impact on the profitability of the commercial banks. These enable commercial banks use product segmentation to enable development of new products. It enables the banks to gain profit through new products and interest gained. Product segmentation enables the banks to utilize skimming or prices. Segmentation was also done based on the returns of the products as well as profitability.

It concluded competitive pricing does not contribute to profitability of the organization but reduce profitability. However, banks consider this pricing method in competitive environment to remain relevant in the market. Therefore, the banks took into consideration the level of prices of different products from the competitors. This assisted

the bank to differentiate products from other competitive product from the competitor bank. Dues to low price associated with competitive based price which reduced profitability of the commercial banks in Kericho County, Kenya. Hence competitive pricing is not significant pricing strategy.

5.3 Policy Recommendations

The study recommends banks to ensure that all price on products should cater for the cost of the products. Cost of labor and differentiation of brand should be inclusive to enable profitability to be realized. Due to consideration of the cost involved it ease to set the margin of profit to be made by the commercial banks. This ensures that Central Bank of Kenya as well as Commercial can regulate interest rates, charges and salaries of their employees while launching products. This will also assist in maintaining capping as well as introduction of related interest rate policies.

Banks also should utilize value addition to enhance their profitability. This enables the banks to value customers need through surveys as well as review in the social media. Development of product that suit customer enables the banks to not only improve profitability but also increase customer share as well as market share. The Central Banks of Kenya would be able to utilize the results in developing policies on new products that provide both customer as well as the commercial banks benefits.

Price skimming should be encouraged through encouraging product segmentation since it enables organization to develop new produces. The study reveals that new products that concentrated in different market segment would not only assist the banks in increase profit through skimming but also improve customers. Pricing skimming also improves

innovativeness with the commercial banks; therefore the study would encourage organization to involve research and development as well as market team for new product in both banking sector and non-banking sector.

The study done recommends competitive pricing to be used only in highly competitive environment. However, there are opportunities through technology and innovation where new products are developed to remain competitive. This would allow banks to prefer value based pricing and price skimming strategies. Therefore, organization should practice cost-plus pricing strategy, value-based pricing and price skimming strategy while should not use competitive based pricing.

5.3.1 Recommendation for further studies

The study recommends further investigation to be done on competitive pricing to assess why it is not a significant contributor to profitability. Also investigation should be conductive on pricing strategies on competitive advantage.

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APPENDICES

Appendix I: Questionnaire

Fill appropriately

PART 1

Demographic information

1. Gender

Female [] Male []

2. Provide your age bracket

18-25 years [] 25-35 years [] 35-45 years [] 45 and over []

3. Provide your level of education?

Post graduate degree []

Undergraduate degree []

Diploma []

Certificate []

K.C.S.E []

4. How long have you served in the bank?

0-5 years [] 6-10 years [] 11-15 years [] 16-20 years [] 20 and above years []

PART 2

Cost plus Pricing strategies

Please check appropriate respond where SA – Strongly agree, A – Agree, N – Neutral, D – Disagree and SD – Strongly disagree

Question	5 (SA)	4 (A)	3(N)	2 (D)	1(SD)
1. The price of products/service allows you to recover the basic costs of operations in opening branches					
2. Customer use ATMS					
3. Different brands in the bank contribute to profitability					
4. Cost of labor is reflected in salaries paid					
5. Cost-plus pricing is effective in enhancing profitability					

6. In your view, how does use of ATM enhance profitability?

.....
.....

7. How does cost of labor affect the profits of the bank in terms of;

- i. Net profits.....
- ii. Earnings.....
- iii. Interest.....
- iv. Net shares.....

8. In what ways does cost-plus pricing affect profitability?

.....
.....

Value-based pricing strategy

Please check appropriate respond where SA – Strongly agree, A – Agree, N – Neutral, D – Disagree and SD – Strongly disagree

Question	5 (SA)	4 (A)	3(N)	2 (D)	1(SD)
1. Bank provides quality products as per the number of satisfied customers					
2. Quality of product and services affect profitability of bank					
3. Value addition in terms of additional service provided play a role in profitability					
4. Employ value addition strategies in bank's products and services					

5. In what ways does value-based pricing strategy affect profitability of the bank?

.....
.....

6. How often do you employ value addition strategies in bank's products and services?

Always []

Very Often []

Sometimes []

Rarely []

Never []

7. How does value addition play a role in profitability of the bank?

.....
.....

Price skimming strategy

Please check appropriate respond where SA – Strongly agree, A – Agree, N – Neutral, D – Disagree and SD – Strongly disagree

Question	5 (SA)	4 (A)	3(N)	2 (D)	1(SD)
1. Product segmentation leads to the development of new products					
2. Product segmentation affect profitability					
3. Product are segmented based on the returns of the products					
4. Banks uses product segmentation to control profit through interest gained					

6. In what ways does product segmentation affect profitability?

.....

.....

.....

Competition-based pricing strategy

Please check appropriate respond where SA – Strongly agree, A – Agree, N – Neutral, D – Disagree and SD – Strongly disagree

Question	5 (SA)	4 (A)	3(N)	2 (D)	1(SD)
1. Bank take into consideration level of prices of different products as compared to that of Competitors					
2. Bank consider competitors pricing strategy in pricing its products and services					
3. Bank use competitive pricing to differentiate the product					
5. Competitive pricing has enhanced the value of bank in terms of shares					

6. To what extent does the bank take into consideration level of prices of different products as compared to that of Competitors?

No consideration []

Fair consideration []

A good amount of consideration []

A great deal of consideration []

7. How often does the bank consider competitors pricing strategy in pricing its products and services?

Always []

Very Often []

Sometimes []

Rarely []

Never []

8. In what ways does it affect profitability?

.....
.....

Profitability

Please check appropriate respond where SA – Strongly agree, A – Agree, N – Neutral, D – Disagree and SD – Strongly disagree

Question	5 (SA)	4 (A)	3(N)	2 (D)	1(SD)
1. Amount of net profit in monetary terms has improved due to different levels of pricing					
2. Level of pricing have enhanced the earning and return of the bank					
3. Pricing strategy have improved the banks' interest gained					
4. The banks pricing strategy has increase the value of share of the bank					
5. Pricing strategy enables the banks to become more profitable					

6. How do you rate earnings of your bank for the last 5 years?

Increasing []

Fluctuating []

Constant []

Decreasing []

7. How do you compare your interest rates to that of other banks?

Very high []

High []

Moderate []

Low []

Very low []

8. In what ways the level of interest affect profitability

.....

Thank you for your cooperation

Appendix II: Work plan

Time in Months

Activities	1	2	3	4	5	6	7	8	9	10	11	12
Formulation of research topic												
Writing of Proposal												
Defense												
Assembling of documents												
Collection of data												
Data Analysis and presentation												

Appendix III: Budget

Items	Justification	Cost (Ksh)
Compiling	Various proposal copies for assessment and defense purpose	5,200
Data Collection	Transport	5,200
Browsing Cost	Browsing and printing	6100
Typing cost	Typesetting charges	7,200
Printing cost	Production of copies for correction and examination	5800
Stationery	Writing materials	5,100
Mislenous	Calculated at 10% of the total cost	5,400
Total		39,600

Appendix IV: List of Commercial Banks in Kericho County

1. Kenya Commercial Bank
2. Cooperative Bank of Kenya
3. Equity Bank
4. Family Bank
5. Standard Chartered Bank
6. Barclays Bank
7. SBM Bank
8. Trans National Bank
9. Sidian Bank
10. Diamond Trust Bank
11. National Bank