EFFECT OF MARKETING INNOVATION ON COMPETITIVENESS OF SMALL AND MEDIUM ENTERPRISES IN NAIROBI COUNTY IN KENYA

BY
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A Research Project Report Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirement for the Degree of Master of Business Administration (MBA)

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STUDENT’S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University - Africa in Nairobi for academic credit.

Signed: __________________________  Date: _________________

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This research project report has been presented for examination with my approval as the appointed supervisor.

Signed: __________________________  Date: _________________

Dr. Joseph Kamau

Signed: __________________________  Date: _________________

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ABSTRACT

The general objective of the study was to determine the effect of marketing innovation on competitiveness of Small and Medium Enterprises (SMEs) in Nairobi County in Kenya. This study was guided by specific objectives that: examined the effect of product design improvement on competitiveness of SMEs in Nairobi County in Kenya, determined the effect of pricing strategies on competitiveness of SMEs in Nairobi County in Kenya, and examined the effect of promotion strategies on competitiveness of SMEs in Nairobi County in Kenya.

This study applied the descriptive research design to examine the effect of marketing innovation on competitiveness of SMEs in Nairobi County in Kenya, and the target population were all the 564 SMEs, registered in Nairobi County Government as at 2019. The sampling frame was the official list of all registered SMEs within Nairobi County and was obtained from the Nairobi County Council register. This study employed stratified sampling, by dividing the SMEs into industries they operated in, and later on Simple Random Sampling (SRS) was used to select different SMEs from each stratum. The Yamane (1967) formula was used to provide the study with a sample size of 234 respondents. The researcher used a Self-Administered Questionnaire (SAQ) to collect data from the SMEs operating in Nairobi’s Central Business District (CBD), and was piloted for consistency, reliability and validity. The questionnaires were distributed through drop-and-pick method. Collected data was cleaned up of errors and to remove inconsistencies, incompleteness, misclassification and gaps in the information obtained from the respondents. Descriptive statistics of frequencies, means and standard deviations was used to analyze the Likert-scale questions in the study and presentations took the form of figures and tables. Inferential statistics like analysis of correlations, analysis of variance (ANOVA) and regressions were used in portraying the influence of the independent variables on the dependent variable.

The study showed that the businesses often introduced new product designs and packages that enhanced customer satisfaction, however, they required funds and skills in order to sustain and improve their competitive advantage, as well as requiring relevant customer information to improve product and packaging design. Introduction of a truly innovative new product captured more attention of the consumers, and the businesses preferred to
maintain their existing market strategy, rather than drastically changing their course of action.

The study revealed that the businesses strategically thought about pricing and proactively administering their prices to remain competitive, and owners in charge of pricing understood how their customers perceived prices. Before setting a price, the businesses usually decided on the strategy for the product and its proposed objectives, and these were based on the perception of benefits from the products being offered to the customers.

The study showed that the businesses carried out promotions to encourage customers to tell others about their products and services since promotion was a central part of the business’ product marketing mix. The businesses built their name through advertising, and created awareness of their brand and product through advertisements on the different platforms. The firms used sales promotion when they wanted to achieve specific sales or marketing objectives, and price-based promotions were difficult for the business to use and adopt.

The study concludes that the businesses did not hold a myopic view about their market place, thus marketing efforts for their new products accelerated the distribution and adoption process of the new product. The businesses had customized their marketing activities with regards to their market segment, thus, increasing their competitive advantage, while targeting their market with the same product and the same marketing mix/ strategy. The businesses provided products designed for a specific market segment that had been insufficiently addressed by competitors.

The study recommends the SME owners to avoid the “wait and see”- attitude prior to an eventual reaction. Instead, the firms should come up with business strategies and tactics that will improve on their product designs in order to sustain their existing market strategy, rather than drastically change their course of action.
ACKNOWLEDGEMENT

My gratitude goes to my research project supervisor, Prof. Joseph Kamau whose guidance and advice throughout this study was profound. Am grateful for the prompt response and understanding throughout this exercise, and honestly, I would have been lost without your encouragement and guideline. Thank you.
DEDICATION

I am grateful to my family especially my mother Margaret Njeri, my Uncle Gichuhi and Sarah my friend who have always steered me towards the right direction and have consistently encouraged me to work hard and do the best I can always. I dedicate this research study to you as a gesture of my utmost gratitude.
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<td>CBD</td>
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<td>GDP</td>
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<td>KPMG</td>
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

A driving force for competitive scuffle in the present chaotic environment is innovation. Introducing new products and services are at the nucleus of economic growth and development (Tomski, 2014). The ability to innovate has caused researchers to study activities leading to initiative advancement of individuals and organizations. Small and Medium-Sized Enterprises (SMEs) furnish a strong increase to employment and economic growth specifically due to their innovative activities which becomes a main force of explaining competitive advantage and firm performance (Becheikh, Landry and Amara, 2016). Accordingly, the values fashioned by innovations shows potential circumstances that uncovered new ways of doing things or new products and processes that add benefits to economic fortunes (Keeble, 2015).

Innovation is meaningful, dynamic, developing process, which result is positive change oriented on improving of transformation process in enterprises and better satisfying of customer needs (Smallbone, North and Vickers, 2013). Organization for Economic Co-operation and Development (OECD) definition describes an innovation as a restoration and widening of products and markets portfolio, as a new designing, manufacturing and distributing methods, implementation of changes in work organization and labor force skills (OECD, 2016). This definition recognize product, technological, organizational and marketing innovation.

The marketing focus of SMEs is to create new and/or modify product packages and designs, promotion tactics, pricing strategies as well as explore effective and efficient distribution networks (Keeble, 2015). These marketing strategies and practices have been generally described as marketing innovations (Stosic, 2007) because they are unconventional, haphazard, reactive (Hills et al., 2008), opportunistic, creative and unusual solutions to market needs (Talegeta, 2014). In operational lenses, the concept of marketing innovation has been variously defined as the implementation of new marketing methods which involve significant changes in product designs and package, product placement, promotion and pricing (Onwumere and Ozioma-Eleodinmuo, 2015). Generally, the concept of innovation is regarded as an essential ability of SMEs to
compete domestically and also improve their performance (Ren et al., 2015). These basic strands of marketing innovation: new improved packages and designs, promotion strategies, pricing and distribution networks create competitive advantage (Chuwiruch et al., 2015) through product differentiation, visibility and easy identification (Ilić et al., 2014). In essence, all these strands of marketing innovations provide support for SMEs to overcome basic challenges, hence improve their advantage in the competitive market (Onwumere and Ozioma-Eleodinmuo, 2015).

In addition to helping the organization to be sustained and gain competitive advantage, market innovation also cause positive rating in the organization that helps the firm during times of economic crisis (Wang, 2015). According to Koksal and Ozgul (2014), during the economic crisis times, typical marketing strategies – the four marketing – should be changed to increase the benefits, income and sales these marketing practices. It is suggested that, as an innovative method, organizations should concentrate on their positive points. So, it can be stated that, innovative marketing strategies, in the form of marketing mix (product, price, place and sales promotion activities) affects the firms’ processes and business competitiveness.

As observed, marketing innovation plays a critical role as the “life-wire” connecting and converting all functional activities of the firm into cash. Furthermore, Dragnic (2009) observed that only two activities in business bring money: innovation and marketing while the rest are cost to the firm. Quite importantly, SME marketing strategies is described as marketing innovation when implemented for the first time in the firm (Lendel and Varmus, 2013). Marketing innovation can be observed from the following dimensions: product design improvement, new pricing strategy, new retail outlets and new promotion concepts as strands of marketing innovation (Becheikh, Landry and Amara, 2016).

SMEs are important to almost all economies in the world, but especially to those in developing countries and, within that broad category, especially to those with major employment and income distribution challenges (Tilley and Tonge, 2013). On what we may call the “static” front, SMEs contribute to output and to the creation of “decent” jobs; on the dynamic front they are a nursery for the larger firms of the future, are the next (and
important) step up for expanding micro enterprises, they contribute directly and often significantly to aggregate savings and investment, and they are involved in the development of appropriate technology (OECD, 2017).

In developing countries with large informal or micro enterprise sectors, SMEs constitute the middle of the size range, a fact that explains much of their strategic importance. In terms of organizational structure (OECD, 2016), SMEs are, on average, considerably more complicated than microenterprise, which involve largely the self-employed, sometimes accompanied on the job by a few family workers and hence usually having under 5 workers (OECD, 2017). On the other hand, SMEs are, on average, a good deal less complicated structurally than are corporations and other large firms, with their layers of management and high division of labor (OECD, 2016).

In the African context, whether in the low or high innovation streams, firms face many obstacles when it comes to gathering the financing they need. There are several reasons for this, which for instance include low expected returns stemming from the inability to capture profits from an invention, or uncertainty linked to the innovation (OECD, 2017). While this hold mostly true for “high innovation” firms across the globe, the African problem is more acute, it also presents bottlenecks related to inadequate structure of financial markets, scarce public financing, lack of track record for firms, absence of venture capital firms, shallow equity markets and so forth (OECD, 2016).

Stylized facts about the African continent highlight the breadth and depth of the issue. According to the World Bank’s (2014) report, challenges in African captured in the Access to credit category remain severe in spite of some recent reforms in some countries. The Banking sector does not offer adequate products as its lending is concentrated on given sectors, is characterized by high spreads, short tenure and general risk aversion. This leads to odd situations where banking systems are characterized by levels of high liquidity, but little lending to SMEs (Pougues and Bernasconi, 2013). Similarly, equity financing is falling short as exemplified by the relatively low private equity penetration in Africa: in 2014, the ratio of private equity investments to Gross Domestic Product (GDP) across Sub-Saharan Africa (SSA) stood at a meagre 0.12%,
compared to 0.21% for South Africa (SA), 0.81% in the United Kingdom (UK) and 1.23% in the United States of America (USA) (KPMG, 2015).

Kenya like other countries across the globe the number of SMEs has been growing at a tremendous rate. The number of registered SMEs in Kenya stands to over 1.6 million. They have grown to be critical to Kenya’s economy employing close to 75% of the labour force across all sectors of the economy (Becheikh, Landry and Amara, 2016). The SMEs are responsible for a huge chunk of production and make up 20% of the country’s gross domestic product. In essence SMEs are key to poverty alleviation in Kenya (Onyango, 2014). In Kenya SMEs play a big role in driving the economic growth through technological innovations, creation of employment and promotion of exports to other countries (Becheikh, Landry and Amara, 2016).

The importance of SMEs has led the government of Kenya to partner with them in order to achieve their economic goals by taking several measures to promote these enterprises. In 1986 the government took the first initiative of recognizing that SMEs as potentially strengthening the country’s economy. Other actions by the government include allocation of KSH 3.8 billion to a revolving fund for the purpose of offering credit facilities to 8.2 candidates engaged in SMEs and the informal sector (Republic of Kenya, 2012).

Majority of SMEs in Nairobi Kenya face vast challenges in their quest to grow and even survive. These challenges affect the long-term competitiveness of SMEs which leads them to adoption of various strategies including innovation. The lack of formal training and experience to the managers however also poses a challenge in trying to implement these strategies effectively (Onyango, 2014). Innovation is also hindered by the limited resources at the disposal of most SMEs in Nairobi. There is limited access to credit facilities owing to high facilitation fees, legal fees and also high interest rates. Poor infrastructure is also a major road block to the development of the SMEs in Nairobi - Kenya (Wanjohi and Mugure, 2015). The sector has also been faced with increased competition from the players in the industry as well as large firms that have more resources. The small and medium enterprises analyze their environment and develop strategies to effectively adapt to the environment (Singh, Garg and Deshmukh, 2014).
While SMEs in Nairobi are important in terms of contributing their overall share on the GDP, it is also believed that many smaller firms lack both managerial and technical skills, which inhibit their business effectiveness (Papulova and Mokros, 2007). Therefore, improving the competitive advantage of these SMEs is imperative to individual firms and at the same time essential for improvement of the national economy as a whole (Tilley and Tonge, 2013).

1.2 Statement of the Problem

SMEs play an increasingly important role for market growth domestically and abroad, driving sustainable growth in the trading, production and service sectors through attracting investments. SMEs also play an important role in maintaining a healthy balance in the economy and are the main job creators in society (Roper and Hewitt-Dundas, 2014). Therefore, to identify the factors that determine their competitiveness is an important area. Companies build their competitive advantage and competitiveness in different ways, regardless of whether they manufacture goods or provide services (Gilder, 2016). The majority of service providers, which make quite a unique group of companies typical of modern society, employ the traditional methods of obtaining and maintaining competitiveness (Tomski, 2014).

Despite the relevance of marketing innovation in achieving Sustainable Competitive Advantage (SCA), studies appear to be mixed on the subject (Heimonen, 2012). For instance, while some studies have found a positive and significant effect of marketing innovation on SCA (Awan and Hashmi 2014; Camison and Villar-López, 2011; Dzisi and Selvarajah, 2012; Geldes and Felszetztein, 2013; Mbizi et al., 2013), other studies have found that some SMEs (especially those in Africa) are not innovative, hence SMEs are unable to achieve and sustain their market performance (Quaye and Acheampong, 2013; Dzisi and Ofosu, 2014). The findings of Quaye and Acheampong (2013) and Dzisi and Ofosu (2014) reveal that innovation was examined from general perspectives such as product innovation and process innovations using all sectors of the SMEs economy including service, agriculture and industry.
While innovation has the capability of improving SMEs’ competitiveness, one has to be cognizant of the fact that most SMEs in Nairobi County experience lack of managerial skills, access to small markets and are constrained financially (Papulova and Mokros, 2007). It is argued that, by SMEs’ understanding of their role in the economy and their value once they adopt innovation in their processes, they will be in a better position to improve their competitiveness, and thus the need for this study that focuses on the effect of marketing innovation on Kenyan SMEs’ in terms of their competitiveness.

1.3 General Objective
The general objective of the study was to determine the effect of marketing innovation on competitiveness of SMEs in Nairobi County in Kenya.

1.4 Specific Objectives
The specific objectives of the study sought to:

1.4.1 Examine the effect of product design improvement on competitiveness of SMEs in Nairobi County in Kenya.

1.4.2 Determine the effect of pricing strategies on competitiveness of SMEs in Nairobi County in Kenya.

1.4.3 Examine the effect of promotion strategies on competitiveness of SMEs in Nairobi County in Kenya.

1.5 Significance of the Study
1.5.1 Small and Medium Enterprise Stakeholders
The results of this study may be of significance to SME stakeholders and potential investors. These individuals may have an in-depth knowledge on how marketing innovation facilitates competitiveness in SMEs and it offers recommendations on how SMEs can adopt marketing innovation strategies. This may facilitate their SMEs’ ability to adopt the same within their organizations.

1.5.2 Government Agencies
The results of the study may be important to the relevant government agencies in Kenya. The results of this study may help government officials in charge of policy making develop future policies that can be implemented in order to create a favorable marketing innovation environment for SMEs in the country.
1.5.3 Future Scholars
The findings of the study have contributed to the discipline of strategic management and more so the concept of SMEs’ innovation. Future scholars in this field may get a broader view of this concept and it adds to the existing pool of knowledge. The study has filled the existing gap between SMEs’ adoption of marketing innovation and how this influences their competitive advantage.

1.6 Scope of the Study
The study was conducted among the several SMEs within Nairobi County. A sample size of 150 SMEs were chosen and data was collected from them. The study ensured that SMEs from all sectors in Nairobi-Kenya were covered in order to provide the study with a comprehensive result. The study was carried out from January 2019 to April 2019.

1.7 Definition of Terms
1.7.1 Competitive Advantage
Competitive advantage is the favorable position an organization seeks in order to be more profitable than its rivals (Palma, 2015). It can also be defined as a set of unique features of a company and its products that are perceived by the target market as significant and superior to the competition (Tomski, 2014).

1.7.2 Marketing Innovation
A marketing innovation is the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing (Lundvall, 2017).

1.7.3 Product Design Improvement
Product design is defined as the action by a firm to create a new product to be sold by a business to its customers (Chuwiruch et al., 2015). Product design improvement can be defined as the effective generation and development of ideas through a process that leads to new products (Talegeta, 2014).
1.7.4 Pricing Strategy
Pricing strategy is the tactic that companies use to increase sales and maximize profits by selling their goods and services for appropriate prices (Becheikh, Landry and Amara, 2016).

1.7.5 Promotion Strategy
Promotion is the component of a company's marketing system that involves delivery of messages to target customers that emphasizes the benefits of your brand, products and services (Koksal and Ozgul, 2014).

1.8 Chapter Summary
This chapter has various sections that provide the study’s background and the existing research gap. The chapter has provided the study’s general and specific objectives that are driven to examine the influence of innovation on SMEs’ competitive advantage, and it has discussed in detail how the study may be of significance to various stakeholders. The chapter provides the scope of the study geographically as well as provide readers with the definition of key terms. The next chapter provides the literature review. Chapter three provided research methodology, chapter four results and findings and chapter five focuses on discussions, conclusions and recommendations of the study.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

The general objective of the study was to determine the effect of marketing innovation on competitiveness of SMEs in Nairobi County in Kenya. This chapter provides literature for the effect of product design improvement on competitiveness of SMEs in Nairobi County in Kenya, the effect of pricing strategies on competitiveness of SMEs in Nairobi County in Kenya, and the effect of promotion strategies on competitiveness of SMEs in Nairobi County in Kenya.

2.2 Product Design Improvement and Competitiveness of SMEs

One central element in SME marketing activities is design and packaging innovations (O’Dwyer et al., 2009). For decades, product design and packaging innovation has become one of the innovation strands adopted by SMEs (Asiedu, 2016). Product design and packaging innovation includes significant changes in product design and packaging form and/or style without any effect on the core functioning and user characteristics of the product (Wang, 2015). In recent years, literature has emphasized on the eco-design of products as a broader strategic approach for sustainability (Klewitz and Hansen, 2014).

Literature affirms that manufacturing SMEs that often introduce new product designs and packages create product varieties, improve products’ life and enhance customer satisfaction and possess superior strength over competitors (Wang, 2015). Consequently, the ability to sustain and improve competitive advantage requires SMEs to possess some amount of resources and capabilities as a catalyst to transform and modify existing strategies. Studies such as Moreira and Silva (2010), Moreira et al. (2012), Woschke et al. (2017) have noted that internal resources such as machinery, equipment and software are key to the development of innovation strategies.

Other studies have argued that information from stakeholders (Resnick et al., 2016) such as customers, employees, competitors, advertisers, retailers and wholesalers are important because these supply chains actually possess relevant information for product design and packaging innovation (Mbizi et al., 2013). Manufacturing SMEs that are able to change and or modify their existing products into unique product designs and package achieve
SCA (Awan and Hashmi, 2014; Haq et al., 2008; Sudarmiatin and Suharto, 2016). This is referred to as New Product Development (NPD).

NPD is the phrase used to define the whole process of conveying a novel product or service to market, while a product is said to be a new product when it turns out to be functionally different from the present offers (Awan and Hashmi, 2014). Firms typically see NPD as the initial stage in producing and commercializing new goods in the general strategic process of product life cycle management used to uphold or increase their market stake (Klewitz and Hansen, 2014).

2.2.1 Product Freshness
Empirical investigation advocates that the innovativeness of a novel product prompts tit-for-tat response actions (Sudarmiatin and Suharto, 2016). Especially in markets characterized by a high level of competitive rivalry, innovative products are perceived as possessing a substantive competitive impact (Wang, 2015). The higher advanced a fresh product, the more it possibly will elicit noteworthy consequences for the rival companies in an industry. In addition, the introduction of a truly innovative new product also captures more attention than the launch of one more “better mousetrap”. From a normative perspective then, competitors must be vigilant in their assessment and determined in their reaction in order to protect their position, and keep up with the pace of industry evolution (Resnick et al., 2016).

Awan and Hashmi (2014) claim that a distinction must be made between radical and incrementally new products. A radical innovation represents a discontinuity within the industry and advances by an order of magnitude the technological state-of-the-art which characterizes an industry. According to Klewitz and Hansen (2014), incremental innovations are a logical extension to existing knowledge by introducing refinements or extensions of established designs that result in substantial increased value for customers. The distinction between radical and incremental innovation does not imply a judgment of the level of value improvement but rather emphasizes the distinction between products that can be compared to existing products, and evaluated on the same dimensions, and products that break with core concepts of existing offers. Resnick et al. (2016) notes that, within the category of incremental innovations, a wide range of differences in terms of
product newness can still exist among new product launches. To distinguish incremental innovations in terms of product newness, Woschke et al. (2017) define that an innovative incrementally new product introduces a major functional change (and improvement) to an existing product category but does not represent a real break compared with existing products’ functionality and technology.

Haq et al. (2008) claim that the competitive effect of radically new products and incrementally new products differs greatly. Compared to innovative incremental innovations, radically new products, that is, product innovations that are not comparable to the existing spectrum of products create two types of uncertainty: [1] uncertainty concerning the success and consequences of the innovation and [2] uncertainty concerning the target market. The more the actions of the innovating firm depart from the existing business routines in the industry, the harder it is and the more time it takes for the reactor to find an appropriate response (Moreira et al., 2012). New products that are similar to existing products may be more easily framed in the existing mental models that managers hold about their markets. New products that do not match the existing offers in the marketplace, and claim to develop new markets, are much more equivocal in terms of managerial framing (Sudarmiati and Suharto, 2016). Consequently, it becomes more difficult to assess the information obtained from the new product launch. Since the success of a pioneering product is difficult to predict, competing firms may adopt a “wait and see”- attitude prior to an eventual reaction. They prefer to sustain their existing market strategy, rather than drastically change their course of action (Awan and Hashmi, 2014).

Moreover, the signal that is communicated by means of the introduction is ambiguous. At first glance, it may seem that this new product does not endanger the existing activities of the competitors. Radical innovations that are oriented towards new markets may generate the impression not to target the existing market. Cressman (2012) describes in great detail how incumbents failed to respond to new entries in the disk drive industry because [1] they did not recognize them as potential competitors, [2] they were overly engaged in fulfilling their customers’ existing needs, and [3] they were fighting to keep up with their current competitors. While leading firms do not necessarily lack the required technological or innovative capabilities, they often hold a myopic view about the market
place (Sudarmiatin and Suharto, 2016). In line with these conclusions, Heil and Helsen (2015) mention in their discussion of market signaling that signal interpretation is affected by the schemata of the receiver, which have mainly been developed on the basis of an examination of similar competitors in the same market using a similar strategy. It is most definite that competing companies will utmost react to extremely advanced new product increased introductions for the reason that [1] they signify a clear-cut attack on the present market and [2] they seize the market's consideration. A radically new product, however, contains a more equivocal message and competitors will defect from reaction. (Cressman, 2012; Heil and Helsen, 2015).

2.2.2 Marketing Effort
The bigger the sum of promotion funds a firm devotes in the growth and the introduction of a fresh product, the higher its likelihood of victory (Ilic et al., 2014). Marketing energies for the novel product hasten the distribution process, and accelerate the acceptance rate of the new commodity. They also arouse greater long-term market performance (Lendel and Varmus, 2013). Accordingly, the risk of the innovative product on the stand of opponents is anticipated to surge both in scale as well as swiftness. This awareness of threat by the competitors inspires them to respond (Kotler and Keller, 2014). Dzisi and Ofosu (2014) claim that the importance attached to an event draws from the level of threat arising from that event. New product launches that pose a serious threat endanger a company’s existing investments in a specific market. In today’s highly competitive and fragmented industrial environment, one expects this consideration to be an important one (Dzisi and Selvarajah, 2012). Competitors may therefore be expected to feel a strong urge to respond.

Exceedingly continued new creation unveilings also entice the marketplace’s attention. In announcing novel products in the market, inventing companies must assign practical resources to the communication of the product innovation (Gilder, 2016), not only enhancing the prominence of the new merchandise towards clienteles but also in the direction of possible players (Ilic et al., 2014). Action visibility is an important antecedent for competitive reaction. A greater visibility increases the likelihood of reaction (Dzisi and Selvarajah, 2012), whereas subtle low-profile actions from innovators run a significantly smaller risk of immediate retaliation (Dzisi and Ofosu, 2014). Extremely
visible fresh product introductions will be viewed by rivals as significant issues, that necessitate immediate response (Ilic et al., 2014). The visibility of distribution and advancement investments differs. Distribution investments for new industrial products very often focus on the development of new channels (Gilder, 2016). As such, they do not involve an intrusion on a competitor’s traditional playground. Many of these investments also happen outside the eyesight of competitors. Promotion investments on the other hand are targeted at customers, and directly intervene with the competitors’ efforts to promote their products (Dzisi and Ofosu, 2014).

2.2.3 Targeting Strategy
The targeting strategy the company employs for a new product determines the number and identity of competitors that are directly affected by the new product launch. As such, it represents the scope of the competitive action (Keeble, 2015). If the company employs a selective strategy, it selects multiple market segments. For each market segment selected, the firm customizes its marketing activities and therefore clearly attacks the competitors in that segment (Cressman, 2012). As a consequence, such a strategy directly threatens multiple competitors and thus has a large scope. This increases the likelihood of reaction (Keeble, 2015).

An undifferentiated strategy targets the whole market with the same product and marketing mix. Consequently, an undifferentiated targeting strategy possesses a wide scope, but none of the competitors is directly affected to a very great extent. The threat that emanates from an undifferentiated launch strategy is therefore of a limited nature (Gilder, 2016). It can thus be expected that the likelihood of competitive reaction is smaller than is the case when a selective strategy is employed. Finally, a niche strategy is specifically designed to satisfy a particular customer group whose needs may be insufficiently addressed by other competitors (Keeble, 2015). As such, a niche strategy deliberately selects those market segments where rivalry is low, partly because larger competitors are not interested. Therefore, the likelihood of competitive reaction is expected to be small as compared to other targeting strategies (Cressman, 2012).
2.3 Pricing Strategies and Competitiveness of SMEs

Price is one of the greatest supple elements of the marketing mix, which affects straight and in a short term over the profitability and cost efficiency of a firm (Simon, Bilstein and Luby, 2016). Regardless of the significance of a price has on the performance of businesses, it appears that such a component has not been accredited the appropriate consideration by many scholars and marketing specialists (Avlonitis and Indounas, 2012). Naturally, in marketing, the focal attention is on the growth of new products, supply networks and communication policies, and conferring to Lancioni (2015) this possibly will lead to hastened pricing choices lacking appropriate market evaluations and cost reasons. Consequently, pricing is perceived as the meekest policy within marketing, possibly because countless firms fix their prices based on instinct and the executive’s market knowledge (Hinterhuber and Liozu, 2014). Furthermore, very few bosses tactically contemplate about pricing while proactively managing their prices so as to generate satisfactory environments that generate great returns (Nagle and Holden, 2013).

Strategic pricing involves a sturdier association between marketing and other divisions of a firm. With an effort to boost businesses’ both the commercial and monetary performance, strategies for their pricing should be defined by their inner capacities and on the elementary systematic consideration of the needs and desires of their clients, in addition to market settings such as, economic environments and degree of rivalry (Besanko, Dranove, Shanley and Schaefer, 2012; De Toni and Mazzon, 2013). In this setting, this research’ aim was to suggest and examine a theoretical model that shows the effects of pricing strategies on business’s profit. In respect to this, the theoretical expectations consider as pricing policies the descriptions that include the pricing strategies and the price stages used by firms in their particular markets (Besanko et al., 2012).

Price decisions are one of the greatest vital verdicts of management because it influences profitability and businesses’ return together with their market competitiveness (Hinterhuber and Liozu, 2014). Therefore, the duty of creating and defining prices is compound and thought-provoking, since the officials involved in this process area obliged to comprehend how their clients see the prices, how to develop the supposed value, what are the essential and relevant charges to conform with this condition, as well as
contemplate the pricing aims of the firm and their competitive stand in the market (De Toni and Mazzon, 2013).

From this, Nagle and Hogan (2014) argue that businesses which do not control their market prices for their products lose control over them, resulting in weakening their cost-effectiveness largely due to the customers paying a determinate price, which not only depends on the perceived cost, but also on the prices established by the head competitors. Subsequently, erroneous or nonexistent pricing rules possibly will lead consumers to increase the volume of info while permitting them to supplement their negotiating power hence compelling price cuts and reductions. The difference between conventional pricing and strategic pricing involves setting prices by responding to the market conditions or handling them proactively, being their only purpose to apply the most lucrative pricing by creating more value for clients short of the responsibility of growing the company's sales capacity (Nagle and Holden, 2013).

Reasonably, there is not an exclusive mode for defining prices. In order to determining a price, the business must not only resolve what the policy for the product but also add to what the anticipated objectives will be, since the distinct these assumptions, the easier setting the prices will be (Hinterhuber and Liozu, 2013). In the views of Hinterhuber (2008), prices have a great influence on firms’ profitability, and pricing policies vary significantly between industries and market conditions. However, academics generally approve that pricing policies can be characterized in three big sets: cost based on pricing, competition based on pricing and customer value based on pricing (Nagle and Holden, 2013).

2.3.1 Customer Value-Based Pricing Strategy
Value creation can be defined as the offer of gains of equivalent or higher value to the expenses suffered by the customer for a product and/or service. Financial cost which is likely a sacrifice is explained by the price to be charged or really paid by the purchaser (Juran and De Feo, 2015). In addition, the course of value settlement comprises the renovation of the outcomes from the organizational policy on plans meant to extract and bring value to the company’s clients (Hinterhuber and Liozu, 2013). Similarly, it recognizes the gains and expenses of goods and understandings subsequent from the
connection between the clients and the company. Higher value suggestion signifies a proposal for the consumer and this rises the value or answers a problem in an effective way than those of existing rivals (Payne and Frow, 2014).

Perceived value-based pricing is an exercise in which the senior officials take verdicts with regard on the discernment of gains from the good being presented to the consumer and how these benefits are perceived and subjected by the purchasers in connection to the price paid (Ingenbleek, Frambach and Verhallen, 2015). Consequently, as a cultural orientation of trades, value-based pricing is resultant from a traditional routine viewpoints and organizational policies that a precise firm may perhaps use in order to concentrate on customer gratification thereby, increases their cost-effectiveness (Cressman, 2012). According to this, Liozu (2013) takes interest that using prices founded on consumers discernment of value is a modern pricing way, however, occasionally it provokes a deep organizational change on the recognized organizational structure or the pre-existing procedures and systems.

In this logic, Ingenbleek et al. (2015) upholds that perceived value-based pricing, together with pricing methods that refer to the use of material about costs and opponents’ prices, are closely related to the product’s performance, the service and the trade as a whole. These authors acknowledge that the exercise of value-based pricing is a significant pricing practice for acquiring larger yields and for producing some kind of reasonable advantage for the firms’ offers. This was acknowledged in a research done by Füreder, Maier and Yaramova (2014), on medium-sized corporations in Austria which used with higher frequency the perceived value-based pricing strategy. These authors discovered that these businesses had higher contribution margins, between 11–30%, against 0–10% of those firms that did not use this same strategy.

2.3.2 Competition-Based Pricing Strategy

Competition-based pricing applies the crucial information the competitors’ price levels, as well as behavior potentials, observed in real competitors and/or potential primary sources to establish satisfactory pricing levels to be adopted by the establishment (Liozu and Hinterhuber, 2012). The key advantage of this approach is bearing in mind the definite pricing situation of the rivals, and its main drawback is that the demand linked
features are not measured. Moreover, a strong competitive focus among the players can raise the alarm of risk starting a price war among participants in the market (Heil and Helsen, 2015).

Liozu, Boland, Hinterhuber and Perelli (2014) conducted a research charting the pricing processes of firms which set their prices on competitors and found out that managers use not only their knowledge but also skills to define prices, as well as models of costs, contribution margin goals, and well-designed profit objectives/goals. These businesses were strongly bearing in mind the prices of their chief rivals while adding a reward by sharing the result based on the manager’s instinct, though not a scientific technique to define prices.

Therefore, competition-based pricing policies are dangerous because the business does not have indistinct cost or profit evidence from its competitors who, in some cases, may be operating with very low margins (Nagle and Holden, 2013). In some circumstances, the competitor established a more competent production method, thus the prices would not be equal, even because of the scale increases (Liozu and Hinterhuber, 2012). Consequently, by adopting this policy, the firm is at risk of functioning with small margins or even having undesirable profits. Pricing decreasing approaches based on rivalry, in which businesses may pursue increment in volume of sales, can likewise encourage the competitors to reduce their prices while contributing to a destructive competition and a price war, resulting in low profit margins and smaller firms’ cost-effectiveness (Diamantopoulos, 2015). Also, in extremely competitive marketplaces, the price data from competitors becomes outdated very rapidly (Ingenbleek et al., 2015). In this result, it is crucial to manage the capacity that rivals have to counter the pricing strategy defined by the firm in view that in competitive markets this can upsurge the risk of a price war and reducing profit margins (Simon et al., 2016).

2.3.3 Cost-Based Pricing Strategy
Cost-based pricing is the simplest and most common process for setting prices. According to history, it is the most common pricing policy since it conveys a sense of financial forethought (Simon et al., 2016). This involves adding a profit margin on costs, such as adding an average percentage contribution margin to the goods and services. First, the
revenue is determined, and then the calculation of the unit and total costs, followed by examination of the business’s profit goals and lastly setting the prices. Hence, for the specialists involved in this process, it is essential to show to consumers abundant value on products and commercialized services in order to validate the prices set by the business (Urdan, 2015).

Conferring to a research by Guilding, Drury, and Tayles (2015) in 187 corporations in the United Kingdom and in 90 firms in Australia, there are three aspects that can affect a cost-based strategy that were identified: (i) intensity of competition: in a highly competitive market, the strength of competition may result in a loss of contribution and profit margins due to the pressure to match their prices to the competition, which turns costs in a highly appropriate element since it offers the restrictions of prices to be charged; (ii) company size: bigger corporations have a greater capacity of manipulating prices, because they have the inclination to act as a controller for the price ranges predominant in the market, even because they regularly have scale gains; and (iii) type of trades: manufacturing trades have complex expenses due to their big investments on physical amenities and resources used in manufacturing processes, which makes it hard to precisely define the distinct costs of products and theoretically force an increase in the overall cost.

Similarly, a research of 84 firms done by Milan et al. (2013) showed that in these businesses there is a greater emphasis on price setting based on costs. Thus, this approach encourages corporations to use improved spending practices. Moreover, Liozu et al. (2014) steered a study on fifteen small and medium-size American corporations through conducting interviews for forty-four of their executives. In such a research, they covered the three key pricing strategies: (i) customer value-based pricing (in four companies), (ii) cost-based pricing (in six companies) and (iii) competition-based pricing (in five companies). They acknowledged that the majority of the firms creating their prices on costs established innovative cost models, all of which used contribution and profit margin objectives in order to establish their costs.
Looking at the modern economy, it can be suggested that a higher level of rivalry in the market inspires businesses to innovate; thus, they do their greatest to grow their performance (Guilding et al., 2015). Firms that relate more with the international market either by importing or exporting have a solider worry with the business’s cost than those that do not have foreign activities (Milan et al., 2013). Starting from this idea, it is presumed that companies that look for a cost-based pricing approach are always probing for substitutes for cost lessening.

2.4 Promotion Strategies and Competitiveness of SMEs
Promotion as part of specific effort to encourage customers to tell others about their services. Promotion is a key practice that facilitates the process of market exchange between stakeholders and the public at any given time (Gupta and Zeithaml, 2006). As a result, every firm must position itself as either a promoter or communicator with an aim of creating an optimal mix of marketing communication tools that will enable product be a brand in the market (Nagle and Hogan, 2014). Promotion holds a central role in the product marketing mix that any company may use to pursue its marketing objectives and advertising, (Kotler and Keller, 2014). Study by Francis and Collins-Dodd (2014) has shown that there is a relationship between promotion and the performance of business. Soke and Wiid (2016) mentions that advertising can be used by SMEs, and like other large firms this can result in giving SMEs competitive edge. According to Lundvall (2017), promotion strategy is the direct way in which an organization communicates the product or service to its target audiences. Within the business industry, promotion is used in many different ways and Koksal and Ozgul (2014) has categorized the promotional tools into five main elements; Advertising, Sales promotion, Public relations, Personnel selling, and Direct Marketing.

2.4.1 Advertising
Geldes and Felzensztein (2013) define advertising strategy as any paid form of non-personal communication directed towards target audiences and transmitted through various mass media in order to promote and present a product, services or idea. The key difference between advertising and other promotional tools is that it is impersonal and communicates with large numbers of people through paid media channels. Francis and Collins-Dodd (2014) state that organizations can use its advertising for either its short-
term or long-term objectives. An organization attempting to create a long-term relationship, should build up of its name by using institutional advertising, while a service organization interested in promoting its brand name and its differentiated services would use a brand advertising policy.

The institutional advertising consists of promotion of the firms’ image as a whole and promotion of the products offered, with extra emphasis on the specific firm’s name organization (Heimonen, 2012). The organization seeks through its marketing communications to build awareness and to impress customers looking for the best range of services, due to the former impression of services organizations as impersonal institutions with no interest in their customers as people, and business services as abstract and quite similar the institutional advertising have become more and more important (Milan et al., 2013).

Brand advertising follows closely in the footsteps of institutional advertising. Its purpose is to create awareness of the organizations’ name and to advertise the different services it is offering. Since SME firms are serving a mass of people, the problems of brand advertising are to know who to advertise to, and how to advertise (Nagle and Hogan, 2014). While institutional advertising is directed towards the whole population, the brand advertising of particular products has to be much more selective since it has to show that the consumer will benefit from the service (Heimonen, 2012). Furthermore, all the individual campaigns of brand advertising have to be compatible in tone and presentation and match the image the organizations have created through its institutional advertising (Geldes and Felzensztein, 2013)

Palma (2015) states that an important part of advertising is to make the service tangible in the mind of the consumer in order to reduce perceived risk and provide a clear idea of what the service comprises. Furthermore, Heimonen (2012) considers it important to advertise consistently, with clear brand image in order to achieve differentiation and encourage word-of-mouth communication. Lundvall (2017) suggests that there are two types of advertising channels appropriate for business advertising. That is “above-the-line” and under-the-line” advertising. Above-the-line advertising contains different channels of communication such as television, radio, posters, magazines and newspapers.
Under-the-line advertising constitutes a huge part of organization advertising activities. It is the invisible advertising of the firms’ services including leaflets, pamphlets, explanatory guides and manuals that can be used to support selling of a specific service.

2.4.2 Sales Promotion
According to Ren et al. (2015) sales promotion is tactical marketing techniques with mostly short-term incentives, which are to add value to the product or service, in order to achieve specific sales or marketing objectives. Furthermore, Singh et al. (2014) state that it has two distinctive qualities. Firstly, it provides a “bargain chance” since many sales promotion tools have an attention gaining quality that communicates an offer that although they appeal to a wide range of buyers, many customers tend to be less brand loyal in the long run. Secondly, if sales promotions are used too frequently and carelessly, it could lead to insecure customers, wondering whether the services are reliable or reasonably priced.

Hinterhuber and Liozu (2014) indicate that due to conflicting ideas concerning the benefits of sales promotions, SME organizations must base their decision upon relevance and usefulness of sales promotion as well as cost effectiveness. Juran and De Feo (2015) claim that normally, coupons, special offers and other forms of price manipulation are the dominant forms of sales promotion. Thus, price-based promotions are difficult and probably dangerous to use for SME service markets. This is due to the fact that the price setting of service is already a difficult process, and that consumers often see lower prices as a result of lower quality. However, Hinterhuber and Liozu (2014) state that sales promotion with SME services appear to be most effectively used in combination with advertising. The primary objectives with sales promotion within the SME services are attract new customers; to increase market share in selected market segments; and to lower the cost of acquiring new customers by seeking to avoid direct price competition with other SMEs.

2.4.3 Public Relation
According to Geldes and Felzenszteine (2013) the essence of public relations (PR) is to look after the nature and quality of the relationship between the organization and its different publics, and to create a mutual understanding. Koksal and Ozgul (2014) state
that, PR covers a range of activities, for example the creation and maintenance of corporate identity and image; charitable involvement, such as sponsorship, and community initiatives; media relation for the spreading of good news as well as for crisis management, such as damage limitation.

Moreover, an organization can attend trade exhibitions to create stronger relationships with key suppliers and customers as well as enhancing the organization’s presence and reputation within the market (Becheikh et al., 2016). Mbizi et al. (2013) state that another part of public relations is the publicity gained through magazines. SMEs and their services obtain considerable publicity in so called quality press, such as different educational journals. In popular newspaper the publicity is, in contrary to the quality press, often negative from the firm’s point of view.

2.4.4 Personal Selling
Onwumere and Ozioma-Eleodenimu (2015) argue that, personal selling is a two-way communication tools between a representative of an organization and an individual or group, with the intention to form, persuade or remind them, or sometimes serve them to take appropriate actions. Koksal and Ozgul (2014) further state that, personal selling is a crucial element in ensuring customers’ post-purchase satisfaction, and in building profitable long-term buyer-seller relationship built on trust and understanding. According to Urdan (2015), the increased competition within the fast-changing environment of SMEs has led the SME organizations to develop and maintain comprehensive relationship with their customers.

Keeble (2015) states that the long-term person to person relationship is an important factor for SME firms to achieve a competitive advantage. Füreder et al. (2014) point out that once the customer has chosen their organization of choice, he is unlikely to switch to another. Thus, personal selling is probably the most important element in the communication press within the SME industry. Lendel and Varmus (2013) state that, personal selling can be performed either face to face or through technological aids such as the internet.
Füreder et al. (2014) state that the relationship between the salesperson and customer is perceived as being of great importance for the marketing of SMEs. Hence, the sales force within this industry needs not only to be trained in the art of selling but also to be aware of all the services available and be able to clearly explain what each service offers. Lendel and Varmus (2013) opine that, since customers’ needs and motivation are likely to be complex, and their ability to assess alternative courses of action without professional assistance is likely to be limited, it is of great significance for the sales force engages and co-operates toward the customer, trying to find a solution to the customer’s problem, rather than only persuading him to purchase the products or services.

2.4.5 Direct Marketing
According to Payne and Frow (2014), direct marketing is an interactive system of marketing, using one or more advertising media to achieve measurable response anywhere, forming a basis for creating and further developing an on-going direct relationship between an organization and its customers, to be able to create and sustain quality relationship with sometimes hundreds or even thousands of individual customers, an organization needs to have as much information as possible about each one, and needs to be able to access, manipulate and analyze that information, thus, the database is crucial to the process of building the relationship.

Koksal and Ozgul (2014) states that the fast advances in technology over the past 30 years have reshaped how consumers today interact with their organizations. The SME sector has extended its face to face selling towards direct marketing of products and services in the form of phone, mail or computer transactions. Mbizi et al. (2013) claim that as computer literacy and the availability of computers increase and the costs decrease. Through the internet, SMEs can identify their customer interests. Furthermore, the Internet technology also makes it possible to follow individual customer usage. With the information gathered in an integrated database it is possible to read the customers’ needs and satisfy them (Payne and Frow, 2014). This knowledge can be used for different kinds of direct marketing (Mbizi et al., 2013).
2.5 Chapter Summary
This chapter has provided literature for the effect of product design improvement on competitiveness of SMEs in Nairobi County in Kenya, the effect of pricing strategies on competitiveness of SMEs in Nairobi County in Kenya, and the effect of promotion strategies on competitiveness of SMEs in Nairobi County in Kenya. The next chapter is the research methodology.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
The general objective of the study is to determine the effect of marketing innovation on competitiveness of SMEs in Nairobi County in Kenya. This section of the study focuses on the research methodology that was used to collect data and the data analysis procedures. The chapter presents the research design, target population, sampling design, data collection methods, research procedures and data analysis methods that were applied in the study.

3.2 Research Design
According to Cooper and Schindler (2014) research design is the all-inclusive plan, structure or plan of collecting information with an aim of obtaining answers to several research questions. It not only involves what the research is about, the objective for carrying out the study, the setting of the study, the type of data that is essential, the probable/legitimate sources of the statistics, the timelines of the study, the sample design but also data collection methods, data analysis procedures and the style of formulating the final report. Sekaran and Bougie (2013) distinguished that there are three kinds of research design namely; descriptive, explanatory, and exploratory research designs.

This particular research used applied descriptive research design to inspect the effect of marketing innovation on competitiveness of SMEs in Nairobi County in Kenya. A descriptive study tries to define carefully a problem or provides knowledge about a situation with the intention of showing what is dominant with respect to the subject (Kumar, 2011). As for Kumar (2014), a descriptive study purpose is to determine or establish the presence of relationships or independence between two or more aspects of circumstances. A descriptive research design is fit for this research since there are independent variables that are triggering changes in a dependent variable. In addition to that, descriptive design is fit for this study as it creates a relationship and association between several variables in the same populace (Leedy and Ormond, 2015).
3.3 Population and Sampling Design

3.3.1 Target Population
Saunders et al. (2016) has defined specific population as the complete set of cases were the sample is taken and which the investigator wants to simplify findings from. Zikmund et al. (2013) moreover, define target population as all essentials or people that a researcher would like to study. In other words, a target population encompasses all individuals, events or objects that have shared characteristics and from which the researcher wants to generalize outcomes (Cooper and Schindler, 2014). The focus of the study were SMEs operating in Kenya and specifically those operating in Nairobi’s Central Business District (CBD). Thus, the target population of this study were all the 564 SMEs, registered in Nairobi County Government as at 2019.

3.3.2 Sampling Design
Sampling design is the process used to find an illustration from a definite population and as such it is the system that a researcher uses while choosing items for the study’s sample (Cooper and Schindler, 2014). The sampling design involves the sampling frame, sampling technique and sample size.

3.3.2.1 Sampling Frame
Saunders et al. (2016) defines sampling frame as the comprehensive list of entities or objects in the populace, from which a prospect sample is drawn and to which study results are to be generalized. Saunders et al. (2016) endorses that, where no appropriate list exists, the researcher will have to assemble their own sample frame to certify that it is effective and dependable. The focus of this study being SMEs operating in Nairobi-Kenya and specifically those operating in Nairobi’s CBD. The sampling frame was the official list of all registered SMEs within Nairobi County and was obtained from the Nairobi County Council register.

3.3.2.2 Sampling Technique
Sampling method offers a system in which the researcher methodically selects the elements to be deliberated. It is a process of selecting illustrative elements from the entire population so as to generalize the findings (Saunders et al., 2016). Sampling techniques can be either probability sampling or non-probability sampling (Creswell, 2014).
Probability sampling is a selection method in which every member of the populace has an identified, non-zero probability of selection, whereas in non-probability sampling, elements of the sample are selected on the foundation of individual decision or suitability (Zikmund et al., 2013).

This research made use of the stratified sampling technique. Stratified sampling is a technique that recognizes the variations or sub-groups in the population and when sub-populations vary considerably, it is advantageous to sample each sub-population (stratum) independently (Levy and Lemeshow, 2013). Hair et al. (2016) state that this type of sampling technique is the most recommended technique as it considers the geographic diversity of a population. Saunders et al. (2012) add that, this technique improves the representativeness of the sample by reducing sampling error, and that, this sampling method becomes cheaper as the researcher only concentrates on differences within the stratum hence saves on costs and is quick and easy. The SMEs were divided into various strata that were guided by the SMEs’ industry of operation. This facilitated a fair representation of all industries. Simple Random Sampling (SRS) was used to select different SMEs from each stratum. SRS is defined as a basic sampling technique where one selects a group of subjects known as “a sample” for study from a larger group known as “population” (Creswell, 2014). In this research, each individual SME was selected entirely based on chance and every SME within the study population had an equal chance of being included in the study sample.

3.3.2.3 Sample Size
The sample size is a subsection of the populace or the number of objects to be selected from the population in order to establish a sample (Creswell, 2014). Cooper and Schindler (2013) state that a study sample needs to be prudently nominated for it to be a standard reflection of the study’s target population and researcher needs to certify that the subdivisions involved in the population analysis are precisely provided for. According to Zikmund et al. (2013), an insignificant sample size may not aid to achieve the research objective and a great one may incur massive cost and waste resources. While selecting the sample size, scientific procedures need to be used. Saunders et al. (2016) argue that when the sample size is big, then there is a lower probability of error in simplifying the population. For this study, the sample size was calculated using the Yamane (1967)
formula that provides a simplified formula to calculate sample sizes and provides a 95% confidence level where \( P = 0.05 \), which brought the sample size to 234 respondents.

\[
n = \frac{N}{1 + N(e)^2}
\]

Where:

- \( n \) = Sample Size
- \( N \) = Population Size
- \( e \) = Level of Precision

Thus, the sample size will be:

\[
n = \frac{564}{1 + 564(0.05)^2}
\]

\[
n = \frac{564}{1 + 564(0.0025)}
\]

\[
n = \frac{564}{1 + 1.41}
\]

\[
n = \frac{564}{2.41}
\]

\[
n = 234
\]

### 3.4 Data Collection Methods

The researcher made use a Self-Administered Questionnaire (SAQ) to collect data from the SMEs operating in Nairobi’s CBD. Christensen et al. (2014) claim that questionnaires are the greatest widely used method of data collection because they allow a researcher to save time, as it is probable to collect a great amount of information in case of large population. Nevertheless, the writers warn that questionnaires must be kept short and that they are subject to non-response to discriminatory items as well as sensitive effects.

The study questionnaire was separated in various sections. The first section collected data on SMEs information, the second section collected data on the effect of organizational innovation on competitiveness of SMEs in Nairobi County in Kenya, the third section collected data on the effect of marketing innovation on competitiveness of SMEs in Nairobi County in Kenya, and the fourth section collected data on the effect of process innovation on competitiveness of SMEs in Nairobi County in Kenya. The questionnaire...
was self-administered to the particular respondents who were asked to rate their reply on a five-level Likert scale that ranged from 1 to 5 where: 1 was strongly disagree and 5 was strongly agree.

3.5 Research Procedures

Permission to carry out the research study was obtained in various stages: firstly, from the study supervisors and secondly from the Dean, Chandaria School of Business. In compliance with the regulations of the organization, permission was sought from the managers of the organizations before the study was conducted. Permission was also sought from SME owners/managers before questionnaires were handed to them, this was done to ensure that they did not feel coerced and their participation was from their own free will, encouraging honest responses.

Zikmund et al. (2013) describes a pilot study as a small-scale study project that gathers data from respondents comparable to those that will be used in the full study. The aim of piloting is mainly to assess the questionnaire and any weaknesses that may be in it. Saunders et al. (2016) view, the pilot sample size should be precise to include any major disparities in the population that are likely to affect responses, and recommend at least a minimum number of 10 respondents. Once data for pilot testing was collected, it was coded and entered in Statistical Package for the Social Sciences (SPSS) to test for reliability and validity of the research instrument. Warrens (2014) posits that Cronbach’s alpha is the most commonly used coefficient for approximation of reliability of test scores for structured questionnaires and for calculating internal consistency. According to Saunders et al. (2016), internal consistency involves correlating the responses to each question to other questions in the questionnaire and measuring the consistency of responses. Cronbach’s alpha values range between 0 and 1 where a value of 0 indicates no reliability, while 1 indicates high reliability (Warrens, 2014). Nevertheless, the threshold for clarification of reliability of the research instrument is Cronbach’s alpha value of 0.7. Hence, Cronbach’s alpha values less than 0.7 show that the research instrument is undependable while Cronbach’s alpha values equal to or greater than 0.7 indicates that the research instrument is dependable (Tavakol and Dennick, 2011).
This research used self-administered questionnaires. Bryman and Bell (2011) state that, with a SAQ, respondents respond to questions by completing the questionnaire themselves. For there is no interviewer in the administration of the self-completion questionnaire, the research instrument has to be exclusively easy to follow and its questions have to be mainly easy to answer (Saunders et al., 2016). The researcher made use of research helpers to dispense and collect data from the SMEs operational in Nairobi’s CBD. These researchers were competent on how to approach the respondents in order to enable a high response rate.

Ethics (integrity) in research has to do with the suitability of the researcher’s conduct in relation to the rights of persons who become the focus of a research project, or who are affected by it. In order to advance information and find resolutions to problems, it is often essential to encroach on the rights of individuals and it is paramount for the researcher to give thought to such ethical matters (Saunders et al., 2016; Zikmund et al., 2013). For this study, the first ethical contemplation was to seek authorization from the owners/managers of the SMEs before data collection. The second ethical consideration was to ensure that all collected data and material is exclusively used for academic purposes and if demanded, the results be shared by the owners/managers of the firms. The third thought was to ensure that respondents participated willingly, meaning no incentives were given to the respondents who participated in the study.

3.6 Data Analysis Methods
The data gathered needs to be prepared and errors cleaned, discrepancies removed, incompleteness, misclassification and gaps in the information gotten from the respondents (Kumar, 2014). Missing data is the most common problem with questionnaires and comes in numerous forms: invalid data; incomplete data necessary to make a decision; inconsistent data resultant from mistakes of aligning databases; whereas incorrect data occurs when data is forged (Cooper and Schindler, 2014). This study certified that all questionnaires comprising of invalid, incomplete, inconsistent and incorrect data were cancelled and uninvolved from the analyzed data.

Descriptive statistics are tools that illustrate the center, spread, and shape of distributions and are supportive as preliminary apparatuses for data description. They aid to describe
the straightforward features of the data, to organize and précis it in a modest way (Cooper and Schindler, 2014; Peck and Devore, 2012). Descriptive statistics make it probable to determine patterns that are not obviously apparent in the raw data by use of graphs, pie charts, and tables for ease of pictorial explanation. Descriptive statistics contain measurement of central tendency and dispersion (Saunders et al., 2016). There are few measures of central tendency and the option of one to use is founded on certain principles. According to Agarwal (2013), a measure of central tendency is satisfactory if it holds the following features: It must be based on all observations; it ought not be influenced by extreme values; it ought to be close to the maximum number of experimental values as possible; it should have a specific value; it should be imperiled to complex calculations; it should pass further algebraic formulation; and it had better be constant with regard to sampling. Descriptive statistics of frequencies, means and standard deviations were deployed to examine the Likert questions in the research and final presentations were in the form of figures and tables.

Inferential statistics discuss the statistical methods used to deduce inferences from a sample to an entire populace. Statistical testing can be univariate when analyzing objective concerning only one variable, bivariate when involving two variables, or multivariate when testing ideas and models involving three or more variables (Zikmund et al., 2013). Some of the inferential tests including; Factor Analysis, Correlation, Analysis of Variance (ANOVA) and Regression. For the goal of this study, inferential analysis of correlations, ANOVA and regressions were employed to analyze the study. This enabled the researcher in depicting the influence of the independent variables on the dependent variable. The linear regression analysis for the study was as follows:

\[ \gamma = a + \beta_1 \chi_1 + \beta_2 \chi_2 + \beta_3 \chi_3 + \varepsilon \]

Where:
- \( a \) = the constant (point at which line crosses \( \gamma \) axis)
- \( \beta(1,2,3) = \) Intersection between \( a \& \gamma \)
- \( \chi_1 = \) Product Design Improvement
- \( \chi_2 = \) Pricing Strategies
- \( \chi_3 = \) Promotion Strategies
- \( \varepsilon = \) Error (or residual) value
3.7 Chapter Summary

This chapter has discussed in detail the research methodology that the researcher used while carrying out the study. The chapter has vividly elaborated on the research design, target population, sampling design, data collection methods, research procedures and data analysis methods that were used in this study. The next chapter focuses on the results and findings of the study.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

The purpose of this study was to determine the effect of marketing innovation on competitiveness of SMEs in Nairobi County in Kenya. This chapter presents the data analysis results, interpretation and presentation.

4.2 Demographic Information

This section discusses the results of the general information about the respondents including the gender, age bracket, and education level, position in business and period in business, as well as the response rate.

4.2.1 Response Rate

Table 4.1 indicates that the 120 questionnaires out of 234 administered were returned. The overall response rate was thus found to be 51% which is quite average compared to the usually expected response rate of 50-75% for hand delivered questionnaires and was sufficient to proceed with the data analysis.

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responded</td>
<td>120</td>
<td>51</td>
</tr>
<tr>
<td>Did not Respond</td>
<td>114</td>
<td>49</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>234</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

4.2.2 Gender

The respondents were asked to indicate their gender. The findings were as indicted in Table 4.2. The study identified that 65% of the respondents were male while 35% were female.

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>78</td>
<td>65</td>
</tr>
<tr>
<td>Female</td>
<td>42</td>
<td>35</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>120</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
4.2.3 Age of the Respondents
The respondents were asked to indicate their age bracket; the finding was indicated in Figure 4.1. The findings indicate that majority of the respondents 52% were between the ages of 26-30 years, 23% of the respondent were between the ages of 31-40 years, 21% of the respondent were above 41 years old, and 4% of the respondent were between the ages of below 25 years.

Figure 4.1 Age of the Respondents

4.2.4 Level of Education
The respondents were asked to indicate the highest level of education, the finding was indicated of Figure 4.2. The findings indicate that majority of the respondents 45% had diplomas followed by 42% with degrees, 13% had certificates. The finding highlights that respondents were knowledgeable and they had vast information on marketing innovation.

Figure 4.2 Level of Education
4.2.5 Position in Business
The study sought to establish the position held by the respondent. The findings were as shown in Figure 4.3. The study found out that 58% of the respondents were the owners, 28% of the respondents were managers, 12% were sales persons, and 2% were cashiers. This shows that all level of employees within the SME sector were covered, providing comprehensive results.

4.2.6 Period in Operation
Most of the firms (39%) had been in operation for 4-6 years. 28% above 13 years, 18% had been in existence for 1-3 years and 15% had been in operation for 7-9 years as indicated in figure 4.4. The SMEs had been in operation for more than 5 years making them great for the study.
4.3 Product Design Improvement and Competitiveness of SMEs

4.3.1 Rating of Product Design Improvement

The rating of statements measuring product design improvement are indicated in Table 4.3. The results show that 36% agreed that the business often introduced new product designs and packages that enhance customer satisfaction, 44% disagreed and 20% were neutral (Mean 3.11, SD 1.53). 90% of the respondents agreed that the business required funds and skills in order to sustain and improve its competitive advantage, 8% were neutral, and 2% disagreed (Mean 4.77, SD 0.74). 68% agreed that the business required relevant customer information to improve its product and packaging design 22% were neutral, and 10% disagreed (Mean 4.01, SD 1.07). 72% were of the opinion that introduction of a truly innovative new product captures more attention of the consumers 18% were neutral, and 11% disagreed (Mean 4.03, SD 1.26).

The table shows that 53% agreed that the business preferred to maintain its existing market strategy, rather than drastically changing its course of action, 31% were neutral, and 17% disagreed (Mean 3.60, SD 1.31). 28% agreed that the business often held a myopic view about its market place, 55% disagreed, and 18% were neutral (Mean 2.66, SD 1.08). 74% agreed that marketing efforts for the new products accelerated the distribution and adoption process of the new product, and 26% disagreed (Mean 3.97, SD 1.49). 63% agreed that introducing new products in the market place enhanced the visibility of the new product towards customers, 28% were neutral, and 10% disagreed (Mean 3.83, SD 1.00).

The results show that 57% agreed that the distribution of new products in the business often focused on the growth of new channels, 34% disagreed, and 9% were neutral (Mean 3.40, SD 1.76). 78% agreed that the business has customized its marketing activities with regards to its market segment, thus, increasing its competitive advantage, 22% disagreed (Mean 3.80, SD 1.53). 51% agreed that the business targeted its market with the same product and the same marketing mix/ strategy, 36% were neutral, and 14% disagreed (Mean 3.52, SD 0.95). 38% agreed that the business provides products designed for a specific market segment that has been insufficiently addressed by competitors, 33% were neutral, and 29% disagreed (Mean 3.27, SD 1.31).
Table 4.3 Rating of Product Design Improvement

<table>
<thead>
<tr>
<th>Product Design Improvement</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>The business often introduces new product designs and packages that enhance customer satisfaction</td>
<td>16</td>
<td>28</td>
<td>20</td>
<td>1</td>
<td>35</td>
<td>3.11</td>
<td>1.53</td>
</tr>
<tr>
<td>The business requires funds and skills in order to sustain and improve its competitive advantage</td>
<td>2</td>
<td>0</td>
<td>8</td>
<td>0</td>
<td>90</td>
<td>4.77</td>
<td>0.74</td>
</tr>
<tr>
<td>The business requires relevant customer information to improve its product and packaging design</td>
<td>2</td>
<td>8</td>
<td>22</td>
<td>24</td>
<td>44</td>
<td>4.01</td>
<td>1.07</td>
</tr>
<tr>
<td>Introduction of a truly innovative new product captures more attention of the consumers</td>
<td>9</td>
<td>2</td>
<td>18</td>
<td>21</td>
<td>51</td>
<td>4.03</td>
<td>1.26</td>
</tr>
<tr>
<td>The business prefers to maintain its existing market strategy, rather than drastically changing its course of action</td>
<td>11</td>
<td>6</td>
<td>31</td>
<td>18</td>
<td>35</td>
<td>3.60</td>
<td>1.31</td>
</tr>
<tr>
<td>The business often holds a myopic view about its market place</td>
<td>11</td>
<td>44</td>
<td>18</td>
<td>24</td>
<td>4</td>
<td>2.66</td>
<td>1.08</td>
</tr>
<tr>
<td>Marketing efforts for the new products accelerate the distribution and adoption process of the new product</td>
<td>12</td>
<td>14</td>
<td>0</td>
<td>14</td>
<td>60</td>
<td>3.97</td>
<td>1.49</td>
</tr>
<tr>
<td>Introducing new products in the market place enhances the visibility of the new product towards customers</td>
<td>2</td>
<td>8</td>
<td>28</td>
<td>33</td>
<td>30</td>
<td>3.83</td>
<td>1.00</td>
</tr>
<tr>
<td>The distribution of new products in the business often focuses on the growth of new channels</td>
<td>30</td>
<td>4</td>
<td>9</td>
<td>9</td>
<td>48</td>
<td>3.40</td>
<td>1.76</td>
</tr>
<tr>
<td>The business has customized its marketing activities with regards to its market segment, thus, increasing its competitive advantage</td>
<td>21</td>
<td>1</td>
<td>0</td>
<td>34</td>
<td>44</td>
<td>3.80</td>
<td>1.53</td>
</tr>
<tr>
<td>The business targets its market with the same product and the same marketing mix/ strategy</td>
<td>2</td>
<td>12</td>
<td>36</td>
<td>35</td>
<td>16</td>
<td>3.52</td>
<td>0.95</td>
</tr>
<tr>
<td>The business provides products designed for a specific market segment that has been insufficiently addressed by competitors</td>
<td>9</td>
<td>20</td>
<td>33</td>
<td>10</td>
<td>28</td>
<td>3.27</td>
<td>1.31</td>
</tr>
</tbody>
</table>
4.3.2 Correlation Analysis for Product Design Improvement

This study examined the correlation between product design improvement factors and SME competitiveness, with the aim of establishing the nature of the existing relationship, and the obtained results were as shown in Table 4.4. The table indicates that product design improvement was significant to SME competitiveness (r=0.579, p<0.01). Product freshness was insignificant to SME competitiveness (r=0.144, p>0.05). Marketing effort was significant to SME competitiveness (r=0.591, p<0.01). Targeting strategy was significant to SME competitiveness (r=0.569, p<0.01).

<table>
<thead>
<tr>
<th>Table 4.4 Correlation Analysis for Product Design Improvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME Competitiveness</td>
</tr>
<tr>
<td>SME Competitiveness</td>
</tr>
<tr>
<td>Product Improvement</td>
</tr>
<tr>
<td>Product Freshness</td>
</tr>
<tr>
<td>Marketing Effort</td>
</tr>
<tr>
<td>Targeting Strategy</td>
</tr>
</tbody>
</table>

**Correlation is significant at the 0.01 level (2-tailed)

4.3.3 Regression Analysis for Product Design Improvement

4.3.3.1 Model Summary for Product Design Improvement

A regression analysis was conducted to establish the prevailing statistical relationship between product design improvement and SME competitiveness and the results were as presented in Table 4.5. The regression model summary shown in the table has a resulting R square value of 0.335. This reveals that 34% of the difference in SME competitiveness may explained by product design improvement.
Table 4.5 Model Summary for Product Design Improvement

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.579*</td>
<td>.335</td>
<td>.329</td>
<td>.68032</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Product Design Improvement

4.3.3.2 ANOVA between Product Design Improvement and SME Competitiveness

The study carried out the analysis of variance (ANOVA) with the aim of examining the variability level between product design improvement and SME competitiveness, as well as examine its significance. Table 4.6 shows the ANOVA results for product design improvement and SME competitiveness, and the F-value figure of 59.427 df (1,118) <0.01 indicates that the regression analysis was suitable for this study, and that there exited a significant and statistical variance between product design improvement and SME competitiveness.

Table 4.6 ANOVA between Product Design Improvement & SME Competitiveness

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>27.505</td>
<td>1</td>
<td>27.505</td>
<td>59.427</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>54.615</td>
<td>118</td>
<td>.463</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>82.120</td>
<td>119</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Product Design Improvement

b. Dependent Variable: SME Competitiveness

4.3.3.3 Regression Coefficients for Product Design Improvement

The study conducted a regression analysis that would define the prevailing statistical relationship between product design improvement and SME competitiveness, and the results were as presented in Table 4.7. The table shows the regression coefficient of the analysis, and it shows that there exists a strong and positive relationship between the two study variables, and the linear equation was as follows:

\[ SME\ Competitiveness = 1.668 + 0.555 \text{ Product Design Improvement} + e \]

This means that product design improvement was significant in the SMEs’ competitiveness as indicated by the p-value of <0.01. This also means that whenever the SMEs increased their product design improvement by a single unit, their competitiveness also improved by a mean index of 0.555 or 56%.
Table 4.7 Regression Coefficients for Product Design Improvement

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>1.668</td>
<td>.292</td>
<td>.292</td>
<td>5.711</td>
</tr>
<tr>
<td>Product Design Improvement</td>
<td>.555</td>
<td>.072</td>
<td>.579</td>
<td>7.709</td>
</tr>
</tbody>
</table>

a. Dependent Variable: SME Competitiveness

4.4 Pricing Strategies and Competitiveness of SMEs

4.4.1 Rating of Pricing Strategies

The study sought to find out the extent to which pricing strategies an impact has on the competitiveness of SMEs in Nairobi County in Kenya. The results are as indicated in Table 4.8. The table shows that 83% of the respondents agreed that the business strategically thought about pricing and proactively administered its prices to remain competitive, and 18% disagreed (Mean 3.99, SD 1.18). 86% of the respondents agreed that the business owners in charge of pricing understood how our customers perceived prices, 8% were neutral, and 7% disagreed (Mean 4.40, SD 0.95). 84% agreed that the business usually decided on the strategy for the product and its proposed objectives before setting a price, 12% disagreed, and 4% were neutral (Mean 4.40, SD 1.06). 62% agreed that the business prices its products based on the perception of benefits from the products being offered to the customer, 20% were neutral, and 18% disagreed (Mean 3.72, SD 1.40).

The table shows that 60% were of the opinion that the pricing and product performance of the firm are intimately related, 23% disagreed, and 18% were neutral (Mean 3.40, SD 1.45). 89% agreed that the business’ pricing strategy helped the business to obtain larger returns, thus creating comparative advantage, and 11% disagreed (Mean 4.45, SD 1.08). 88% agreed that the firm prices its products/services based on key information the competitors’ price levels, 9% were neutral, and 3% disagreed (Mean 4.42, SD 0.76). 59% agreed that the business managers used their knowledge and experiences to define prices, 20% were neutral, and 21% disagreed (Mean 3.54, SD 1.17).
The table indicates that 75% agreed that the business employed pricing reduction strategies that are based on what the competition is doing, 23% were neutral, and 3% disagreed (Mean 4.08, SD 0.88). 87% agreed that the business added its profit margin on its production costs as a pricing strategy, 10% disagreed, and 4% were neutral (Mean 4.48, SD 1.16). 86% agreed that the business has a greater focus on price setting based on its costs, compared to other strategies, 8% were neutral, and 6% disagreed (Mean 4.28, SD 0.85). 90% agreed that high levels of competition in the market encouraged the business to innovate its pricing strategies, 6% disagreed, and 4% were neutral (Mean 4.44, SD 0.83).

**Table 4.8 Rating of Pricing Strategies**

<table>
<thead>
<tr>
<th>Pricing Strategies</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>The business strategically thinks about pricing and proactively administers its</td>
<td>6</td>
<td>12</td>
<td>0</td>
<td>43</td>
<td>40</td>
<td>3.99</td>
<td>1.18</td>
</tr>
<tr>
<td>prices to remain competitive</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The business owners in charge of pricing understand how our customers perceive</td>
<td>2</td>
<td>5</td>
<td>8</td>
<td>23</td>
<td>63</td>
<td>4.40</td>
<td>0.95</td>
</tr>
<tr>
<td>prices</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Before setting a price, the business usually decides on the strategy for the</td>
<td>2</td>
<td>10</td>
<td>4</td>
<td>15</td>
<td>69</td>
<td>4.40</td>
<td>1.06</td>
</tr>
<tr>
<td>product and its proposed objectives</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The business prices its products based on the perception of benefits from the</td>
<td>13</td>
<td>5</td>
<td>20</td>
<td>20</td>
<td>42</td>
<td>3.72</td>
<td>1.40</td>
</tr>
<tr>
<td>products being offered to the customer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The pricing and product performance of the firm are intimately related</td>
<td>23</td>
<td>0</td>
<td>18</td>
<td>35</td>
<td>25</td>
<td>3.40</td>
<td>1.45</td>
</tr>
<tr>
<td>The business’ pricing strategy helps the business to obtain larger returns, thus</td>
<td>4</td>
<td>7</td>
<td>0</td>
<td>18</td>
<td>71</td>
<td>4.45</td>
<td>1.08</td>
</tr>
<tr>
<td>creating comparative advantage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The firm prices its products/services based on key information the competitors’</td>
<td>0</td>
<td>3</td>
<td>9</td>
<td>33</td>
<td>56</td>
<td>4.42</td>
<td>0.76</td>
</tr>
<tr>
<td>price levels</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The business managers use their knowledge and experiences to define prices</td>
<td>7</td>
<td>14</td>
<td>20</td>
<td>37</td>
<td>22</td>
<td>3.54</td>
<td>1.17</td>
</tr>
<tr>
<td>The business employs pricing reduction strategies that are based on what the</td>
<td>2</td>
<td>1</td>
<td>23</td>
<td>38</td>
<td>37</td>
<td>4.08</td>
<td>0.88</td>
</tr>
<tr>
<td>competition is doing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The business adds its profit margin on its production costs as a pricing strategy</td>
<td>8</td>
<td>2</td>
<td>4</td>
<td>8</td>
<td>78</td>
<td>4.48</td>
<td>1.16</td>
</tr>
<tr>
<td>The business has a greater focus on price setting based on its costs, compared to</td>
<td>0</td>
<td>6</td>
<td>8</td>
<td>38</td>
<td>48</td>
<td>4.28</td>
<td>0.85</td>
</tr>
<tr>
<td>other strategies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High levels of competition in the market encourage the business to innovate its</td>
<td>0</td>
<td>6</td>
<td>4</td>
<td>30</td>
<td>60</td>
<td>4.44</td>
<td>0.83</td>
</tr>
<tr>
<td>pricing strategies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.4.2 Correlation Analysis for Pricing Strategies

This study examined the correlation between pricing strategy variables and SME competitiveness, with the aim of establishing the nature of the existing relationship, and the obtained results were as shown in Table 4.9. The table indicates that pricing strategies was significant to SME competitiveness (r=0.425, p<0.01). Customer value-based pricing was significant to SME competitiveness (r=0.701, p<0.01). Competition-based pricing was insignificant to SME competitiveness (r=0.151, p>0.05). Cost-based pricing was significant to SME competitiveness (r=0.337, p<0.01).

| Table 4.9 Correlation Analysis for Pricing Strategies |
|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|                                  | SME Competitiveness | Pricing Strategies | Customer Value-Based Pricing | Competition-Based Pricing | Cost-Based Pricing |
| SME Competitiveness             | 1                  |                    |                               |                               |                    |
| Pricing Strategies              |                    | .425**             |                               |                               |                    |
| Customer Value-Based Pricing    |                    | .701**             | .706**                        |                               |                    |
| Competition-Based Pricing       |                    | .151               | .773**                        | .443**                        | 1                  |
| Cost-Based Pricing              |                    | .099               | .000                          | .000                          | .000               |
| Pricing                        | .337**             | .597**             | .273**                        | .442**                        | 1                  |

** Correlation is significant at the 0.01 level (2-tailed)

4.4.3 Regression Analysis for Pricing Strategies

4.4.3.1 Model Summary for Pricing Strategies

A regression analysis was conducted to establish the prevailing statistical relationship between pricing strategies and SME competitiveness and the results were as presented in Table 4.10. The regression model summary shown in the table has a resulting R square value of 0.181. This reveals that 18% of the difference in SME competitiveness may explained by pricing strategies.
Table 4.10 Model Summary for Pricing Strategies

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.425a</td>
<td>.181</td>
<td>.174</td>
<td>.75496</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Pricing Strategies

4.4.3.2 ANOVA between Pricing Strategies and SME Competitiveness

The study carried out the ANOVA with the aim of examining the variability level between pricing strategies and SME competitiveness, as well as examine its significance. Table 4.11 shows the ANOVA results for pricing strategies and SME competitiveness, and the F-value figure of 26.078 df (1,118) <0.01 indicates that the regression analysis was suitable for this study, and that there existed a significant and statistical variance between pricing strategies and SME competitiveness.

Table 4.11 ANOVA between Pricing Strategies and SME Competitiveness

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>14.864</td>
<td>1</td>
<td>14.864</td>
<td>26.078</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>67.256</td>
<td>118</td>
<td>.570</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>82.120</td>
<td>119</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Pricing Strategies
b. Dependent Variable: SME Competitiveness

4.4.3.3 Regression Coefficients for Pricing Strategies

The study conducted a regression analysis that would define the prevailing statistical relationship between pricing strategies and SME competitiveness, and the results were as presented in Table 4.12. The table shows the regression coefficient of the analysis, and it shows that there exists a strong and positive relationship between the two study variables, and the linear equation was as follows:

\[
SME\ Competitiveness = 1.558 + 0.542\ Pricing\ Strategies + e
\]

This means that pricing strategies were significant in the SMEs’ competitiveness as indicated by the p-value of <0.01. This also means that whenever the SMEs increased their pricing strategies by a single unit, their competitiveness also improved by a mean index of 0.542 or 54%.
Table 4.12 Regression Coefficients for Pricing Strategies

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pricing Strategies</td>
<td>1.558</td>
<td>.458</td>
<td>3.406</td>
<td>.001</td>
</tr>
</tbody>
</table>

a. Dependent Variable: SME Competitiveness

4.5 Promotion Strategies and Competitiveness of SMEs

4.5.1 Rating of Promotion Strategies

The study sought to establish to what extent the respondents agree about Promotion Strategies affecting competitiveness of SMEs in Nairobi County in Kenya. The results are as indicated in Table 4.13. The table shows that 49% of the respondents agreed that the business carried out promotions to encourage customers to tell others about their products and services, 37% disagreed, and 14% were neutral (Mean 3.13, SD 1.68). 61% agreed that promotion was a central part of the business’ product marketing mix, and 39% disagreed (Mean 3.48, SD 1.66). 47% agreed that the business build its name through advertising, 31% disagreed, and 23% were neutral (Mean 3.38, SD 1.57). 52% agreed that the business created awareness of its brand and product through advertisements on the different platforms, 40% disagreed, and 8% were neutral (Mean 3.33, SD 1.79).

52% agreed that the firm used sales promotion when it wants to achieve specific sales or marketing objectives, and 22% disagreed (Mean 3.94, SD 1.42). 78% agreed that price-based promotions were difficult for the business to use and adopt 36% were neutral, and 20% disagreed (Mean 3.33, SD 1.21). 44% agreed that the business created and maintained its identity and image through public relation activities, 36% disagreed, and 4% were neutral (Mean 3.49, SD 1.56). 60% agreed that the business used trade exhibitions to create stronger relationships with its key suppliers and customers, 55% disagreed, and 11% were neutral (Mean 2.29, SD 1.47).

34% agreed that increased competition has forced the business to develop and maintain comprehensive relationship with its customers, 8% were neutral, and 7% disagreed (Mean 4.42, SD 0.96). 85% agreed that the sales persons in the firm have been trained on the art
of selling and were aware of all the products and services available, 13% disagreed, and 4% were neutral (Mean 4.03, SD 0.93). 61% agreed that the firm has a customer database which it used to build its relationship with clients/ customers, 27% disagreed, and 13% were neutral (Mean 3.74, SD 1.31). 57% agreed that the firm used its customer database to identify their customers’ interests and follow up their individual usage, 31% disagreed, and 13% were neutral (Mean 3.54, SD 1.47).

Table 4.13 Rating of Promotion Strategies

<table>
<thead>
<tr>
<th>Promotion Strategies</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>The business carries out promotions to encourage customers to tell others about their products and services</td>
<td>33</td>
<td>4</td>
<td>14</td>
<td>16</td>
<td>33</td>
<td>3.13</td>
<td>1.68</td>
</tr>
<tr>
<td>Promotion is a central part of the business’ product marketing mix</td>
<td>19</td>
<td>20</td>
<td>0</td>
<td>15</td>
<td>46</td>
<td>3.48</td>
<td>1.66</td>
</tr>
<tr>
<td>The business builds its name though advertising</td>
<td>19</td>
<td>12</td>
<td>23</td>
<td>6</td>
<td>41</td>
<td>3.38</td>
<td>1.57</td>
</tr>
<tr>
<td>The business creates awareness of its brand and product through advertisements on the different platforms</td>
<td>29</td>
<td>11</td>
<td>8</td>
<td>2</td>
<td>50</td>
<td>3.33</td>
<td>1.79</td>
</tr>
<tr>
<td>The firm uses sales promotion when it wants to achieve specific sales or marketing objectives</td>
<td>13</td>
<td>9</td>
<td>0</td>
<td>28</td>
<td>50</td>
<td>3.94</td>
<td>1.42</td>
</tr>
<tr>
<td>Price-based promotions are difficult for the business to use and adopt</td>
<td>11</td>
<td>9</td>
<td>36</td>
<td>24</td>
<td>20</td>
<td>3.33</td>
<td>1.21</td>
</tr>
<tr>
<td>The business creates and maintains its identity and image through public relation activities</td>
<td>16</td>
<td>20</td>
<td>4</td>
<td>19</td>
<td>41</td>
<td>3.49</td>
<td>1.56</td>
</tr>
<tr>
<td>The business uses trade exhibitions to create stronger relationships with its key suppliers and customers</td>
<td>54</td>
<td>1</td>
<td>11</td>
<td>30</td>
<td>4</td>
<td>2.29</td>
<td>1.47</td>
</tr>
<tr>
<td>Increased competition has forced the business to develop and maintain comprehensive relationship with its customers</td>
<td>2</td>
<td>5</td>
<td>8</td>
<td>20</td>
<td>65</td>
<td>4.42</td>
<td>0.96</td>
</tr>
<tr>
<td>The sales persons in the firm have been trained on the art of selling and are aware of all the products and services available</td>
<td>0</td>
<td>13</td>
<td>4</td>
<td>51</td>
<td>33</td>
<td>4.03</td>
<td>0.93</td>
</tr>
<tr>
<td>The firm has a customer database which it uses to build its relationship with clients/ customers</td>
<td>13</td>
<td>0</td>
<td>27</td>
<td>23</td>
<td>38</td>
<td>3.74</td>
<td>1.31</td>
</tr>
<tr>
<td>The firm uses its customer database to identify their customers’ interests and follow up their individual usage</td>
<td>13</td>
<td>18</td>
<td>13</td>
<td>17</td>
<td>40</td>
<td>3.54</td>
<td>1.47</td>
</tr>
</tbody>
</table>
4.5.2 Correlation Analysis for Promotion Strategies

This study examined the correlation between promotion strategy factors and SME competitiveness, with the aim of establishing the nature of the existing relationship, and the obtained results were as shown in Table 4.14. The table indicates that promotion strategies were significant to SME competitiveness ($r=0.537$, $p<0.01$). Advertisement was significant to SME competitiveness ($r=0.373$, $p<0.01$). Sales promotion was significant to SME competitiveness ($r=0.524$, $p<0.01$). Public relation was significant to SME competitiveness ($r=0.296$, $p<0.01$). Personal selling was significant to SME competitiveness ($r=0.463$, $p<0.01$). Direct Marketing was significant to SME competitiveness ($r=0.346$, $p<0.01$).

<table>
<thead>
<tr>
<th></th>
<th>SME Compe</th>
<th>Promo Strat</th>
<th>Advert</th>
<th>Sales Promo</th>
<th>PR Selling</th>
<th>Personal Selling</th>
<th>Direct Mktng</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME Compe</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Promo Strat</td>
<td>.537**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advert</td>
<td>.373**</td>
<td>.856**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales Promo</td>
<td>.524**</td>
<td>.306**</td>
<td>.131</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PR</td>
<td>.296**</td>
<td>-.161</td>
<td>-.036</td>
<td>-.218*</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal Selling</td>
<td>.463**</td>
<td>.759**</td>
<td>.772**</td>
<td>.414**</td>
<td>-.128</td>
<td>.281**</td>
<td>1</td>
</tr>
<tr>
<td>Direct Mktng</td>
<td>.346**</td>
<td>.471**</td>
<td>.427**</td>
<td>.042</td>
<td>-.260**</td>
<td>.281**</td>
<td>1</td>
</tr>
</tbody>
</table>

**Correlation is significant at the 0.01 level (2-tailed)

* Correlation is significant at the 0.05 level (2-tailed)
4.5.3 Regression Analysis for Promotion Strategies

4.5.3.1 Model Summary for Promotion Strategies
A regression analysis was conducted to establish the prevailing statistical relationship between promotion strategies and SME competitiveness and the results were as presented in Table 4.15. The regression model summary shown in the table has a resulting R square value of 0.288. This reveals that 29% of the difference in SME competitiveness may be explained by promotion strategies.

Table 4.15 Model Summary for Promotion Strategies

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.537a</td>
<td>.288</td>
<td>.282</td>
<td>.70387</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Promotion Strategies

4.5.3.2 ANOVA between Promotion Strategies and SME Competitiveness
The study carried-out the ANOVA with the aim of examining the variability level between promotion strategies and SME competitiveness, as well as examine its significance. Table 4.16 shows the ANOVA results for promotion strategies and SME competitiveness, and the F-value figure of 47.755 df (1,118) <0.01 indicates that the regression analysis was suitable for this study, and that there exited a significant and statistical variance between promotion strategies and SME competitiveness.

Table 4.16 ANOVA between Promotion Strategies and SME Competitiveness

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>23.659</td>
<td>1</td>
<td>23.659</td>
<td>47.755</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>58.460</td>
<td>118</td>
<td>.495</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>82.120</td>
<td>119</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Promotion Strategies
b. Dependent Variable: SME Competitiveness

4.5.3.3 Regression Coefficients for Promotion Strategies
The study conducted a regression analysis that would define the prevailing statistical relationship between promotion strategies and SME competitiveness, and the results were as presented in Table 4.17. The table shows the regression coefficient of the analysis, and
it shows that there exists a strong and positive relationship between the two study variables, and the linear equation was as follows:

\[ SME\ Competitiveness = 2.739 + 0.339 \text{ Promotion Strategies} + e \]

This means that promotion strategies were significant in the SMEs’ competitiveness as indicated by the p-value of <0.01. This also means that whenever the SMEs increased their promotion strategies by a single unit, their competitiveness also improved by a mean index of 0.339 or 34%.

**Table 4.17 Regression Coefficients for Promotion Strategies**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>2.739</td>
<td>.176</td>
<td>15.593</td>
<td>.000</td>
</tr>
<tr>
<td>Promotion Strategies</td>
<td>.339</td>
<td>.049</td>
<td>.537</td>
<td>6.911</td>
</tr>
</tbody>
</table>

a. Dependent Variable: SME Competitiveness

**4.6 Chapter Summary**

This chapter has presented the data analysis results, interpretation and presentation in detail. It has provided the response rate as well as the demographic information of the respondents. The chapter has also provided the descriptive and inferential statistics for product design improvement and competitiveness of SMEs, pricing strategies and competitiveness of SMEs, as well as promotion strategies and competitiveness of SMEs. The next chapter is the discussions, conclusions, and recommendations of the study.
CHAPTER FIVE

5.0 DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter concludes the study by providing the summary of the study based on its objectives and findings. It also provides a detailed discussion of the study findings, and provides the study conclusions and recommendations for improvement and further research.

5.2 Summary of the Study
The general objective of the study was to determine the effect of marketing innovation on competitiveness of Small and Medium Enterprises (SMEs) in Nairobi County in Kenya. This study was guided by specific objectives that: examined the effect of product design improvement on competitiveness of SMEs in Nairobi County in Kenya, determined the effect of pricing strategies on competitiveness of SMEs in Nairobi County in Kenya, and examined the effect of promotion strategies on competitiveness of SMEs in Nairobi County in Kenya.

This study applied the descriptive research design to examine the effect of marketing innovation on competitiveness of SMEs in Nairobi County in Kenya, and the target population were all the 564 SMEs, registered in Nairobi County Government as at 2019. The sampling frame was the official list of all registered SMEs within Nairobi County and was obtained from the Nairobi County Council register. This study employed stratified sampling, by dividing the SMEs into industries they operated in, and later on SRS was used to select different SMEs from each stratum. The Yamane (1967) formula was used to provide the study with a sample size of 234 respondents. The researcher used self-administered questionnaires to collect data from the SMEs operating in Nairobi’s CBD, and was piloted for consistency, reliability and validity. Descriptive statistics of frequencies, means and standard deviations was used to analyze the Likert-scale questions in the study and presentations took the form of figures and tables. Inferential statistics like analysis of correlations, ANOVA and regressions were used in portraying the influence of the independent variables on the dependent variable.
The study showed that the businesses often introduced new product designs and packages that enhanced customer satisfaction; however, they required funds and skills in order to sustain and improve their competitive advantage, as well as requiring relevant customer information to improve product and packaging design. Introduction of a truly innovative new product captured more attention of the consumers, and the businesses preferred to maintain their existing market strategy, rather than drastically changing their course of action. The businesses did not hold a myopic view about their market place, thus marketing efforts for their new products accelerated the distribution and adoption process of the new product.

The study revealed that the businesses strategically thought about pricing and proactively administering their prices to remain competitive, and owners in charge of pricing understood how their customers perceived prices. Before setting a price, the businesses usually decided on the strategy for the product and its proposed objectives, and these were based on the perception of benefits from the products being offered to the customers. The pricing and product performance of the firms were intimately related and their pricing strategy helped them to obtain larger returns, thus creating comparative advantage. The firms priced their products/services based on key information the competitors’ price levels, and managers used their knowledge and experiences to define prices.

The study showed that the businesses carried out promotions to encourage customers to tell others about their products and services since promotion was a central part of the business’ product marketing mix. The businesses built their name though advertising, and created awareness of their brand and product through advertisements on the different platforms. The firms used sales promotion when they wanted to achieve specific sales or marketing objectives, and price-based promotions were difficult for the business to use and adopt. The businesses created and maintained their identity and image through public relation activities, and they used trade exhibitions to create stronger relationships with their key suppliers and customers. Increased competition had forced the businesses to develop and maintain comprehensive relationship with their customers, and the sales persons in the firms had been trained on the art of selling and were aware of all the products and services available.

50
5.3 Discussion

5.3.1 Product Design Improvement and Competitiveness of SMEs

The business often introduces new product designs and packages that enhance customer satisfaction. This agrees with Wang (2015) who notes that literature affirms that manufacturing SMEs that often introduce new product designs and packages create product varieties, improve products’ life and enhance customer satisfaction and possess superior strength over competitors. The business requires funds and skills in order to sustain and improve its competitive advantage. This agrees with Moreira and Silva (2010) who state that the ability to sustain and improve competitive advantage requires SMEs to possess some amount of resources and capabilities as a catalyst to transform and modify existing strategies. Studies such as, Moreira et al. (2012), Woschke et al. (2017) have noted that internal resources such as machinery, equipment and software are key to the development of innovation strategies.

The business requires relevant customer information to improve its product and packaging design. This agrees with Mbizi et al. (2013) and Resnick et al. (2016) who argued that information from stakeholders such as customers, employees, competitors, advertisers, retailers and wholesalers are important because these supply chains actually possess relevant information for product design and packaging innovation. Introduction of a truly innovative new product captures more attention of the consumers. The result agrees with Resnick et al. (2016) who state that the introduction of a truly innovative new product also captures more attention than the launch of one more “better mousetrap”, but from a normative perspective then, competitors must be vigilant in their assessment and determined in their reaction in order to protect their position, and keep up with the pace of industry evolution.

The business prefers to maintain its existing market strategy, rather than drastically changing its course of action. The result agrees with Awan and Hashmi (2014) who state that because the success of a pioneering product is difficult to predict, competing firms may adopt a “wait and see”- attitude prior to an eventual reaction, they prefer to sustain their existing market strategy, rather than drastically change their course of action. The business did not hold a myopic view about its market place. This disagrees with Sudarmiatin and Suharto (2016) who state that, while leading firms do not necessarily
lack the required technological or innovative capabilities, they often hold a myopic view about the market place. Marketing efforts for the new products accelerate the distribution and adoption process of the new product. This agrees with Lendel and Varmus (2013) who state that, marketing efforts for the new product accelerate the diffusion process, and speed up the adoption rate of the new product, while also stimulate superior long-term market performance.

Introducing new products in the market place enhances the visibility of the new product towards customers. This agrees with Gilder (2016) and Ilic et al. (2014) who observed that introducing new products in the market place, innovating firms must allocate substantive resources to the communication of the product innovation, enhancing not only the visibility of the new product towards customers but also towards potential competitors. The distribution of new products in the business often focuses on the growth of new channels. The result agrees with Gilder (2016) who states that the visibility of distribution and promotion investments differs, and distribution investments for new industrial products very often focus on the development of new channels, and as such, they do not involve an intrusion on a competitor’s traditional playground.

The business has customized its marketing activities with regards to its market segment, thus, increasing its competitive advantage. This agrees with Cressman (2012) who state that, if the company employs a selective strategy, it selects multiple market segments, and for each market segment selected, the firm customizes its marketing activities and therefore clearly attacks the competitors in that segment. The business targets its market with the same product and the same marketing mix/ strategy. This agrees with Gilder (2016) who notes that an undifferentiated strategy targets the whole market with the same product and marketing mix. Consequently, an undifferentiated targeting strategy possesses a wide scope, but none of the competitors is directly affected to a very great extent. The threat that emanates from an undifferentiated launch strategy is therefore of a limited nature. The business provides products designed for a specific market segment that has been insufficiently addressed by competitors. This agrees with Keeble (2015) who states that a niche strategy is specifically designed to satisfy a particular customer group whose needs may be insufficiently addressed by other competitors, and as such, a
niche strategy deliberately selects those market segments where rivalry is low, partly because larger competitors are not interested.

5.3.2 Pricing Strategies and Competitiveness of SMEs

The business strategically thinks about pricing and proactively administers its prices to remain competitive. This approves Nagle and Holden (2013) statement that, only limited managers strategically deliberate about pricing while proactively managing their prices in order to create conducive environments that lead to profits. The business owners in charge of pricing understand how our customers perceive prices. This confirms De Toni and Mazzon (2013) saying that the duty of developing and defining prices is compound and thought-provoking, because the executives involved in this procedure must comprehend how their clients view the prices, how to grow the supposed value, what are the inherent and appropriate costs to fulfill this need, as well as contemplate on the pricing goals of the firm and their competitive stand in the market.

Before setting a price, the business usually decides on the strategy for the product and its proposed objectives. In agreement with Hinterhuber and Liozu (2013) who states that, reasonably, there is not an exclusive way for defining prices. Prior to setting a price, the business must resolve what is going to be the plan for the product in addition to what will be the planned objectives, because the indistinct the choices, the easier the prices setting process. The business prices its products based on the perception of benefits from the products being offered to the customer. According to Ingenbleek, Frambach and Verhallen (2015) who stated that, perceived value-based pricing is a pricing exercise in which the stakeholders make decisions based on the discernment of gains from the item being presented to the customer and how these paybacks are perceived and weighted by the clients in relationship to the price paid.

The pricing and product performance of the firm are intimately related. This affirms Ingenbleek *et al.* (2015) statement that, perceived value-based pricing, together with pricing exercises that take to account the use of information about costs and competitors’ prices, are closely related to the product’s performance, the service and the company as a whole. The business’ pricing strategy helps the business to obtain larger returns, thus creating comparative advantage. In agreement to Ingenbleek *et al.* (2015) statement that,
the usage of value-based pricing is a vital pricing practice for gaining larger returns and for generating some kind of comparative advantage for the companies’ proposals.

The firm prices its products/services based on key information the competitors’ price levels. This agrees with Liozu and Hinterhuber (2012) who detected that competition-based pricing utilises as main information the competitors’ price stages, as well as behavior potentials, observed in real competitors and/or potential primary sources to determine satisfactory pricing levels to be adopted by the company. The business managers use their knowledge and experiences to define prices. Liozu, Boland, Hinterhuber and Perelli (2014) who conducted a research mapping the pricing procedures of companies which based their prices on rivals, found that stakeholders use their skill and experiences to define prices, as well as models of costs, contribution margin goals, and well-organized profit objectives.

The business employs pricing reduction strategies that are based on what the competition is doing. This confers with Diamantopoulos (2015) who states that pricing reduction policies based on competition, in which firms seek to increase the volume of sales, can also inspire the competitors to decrease their prices while contributing to a predatory price war and competition, subsequently leading to reduced profit margins and lesser businesses’ cost-effectiveness. The business adds its profit margin on its production costs as a pricing strategy. According to Simon et al. (2016) who state that cost-based pricing is the most simple and common technique for establishing prices. Historically, it is the most common pricing policy for it carries a sense of financial forethought, and this includes addition of a profit margin on costs, such as adding a normal percentage contribution margin to the products and services.

The business has a greater focus on price setting based on its costs, compared to other strategies. This approves Milan et al. (2013) study that exposed that in these companies there is a larger focus on price setting based on costs. Consequently, this strategy prompts businesses to use improved expenditure methods. High levels of competition in the market encourage the business to innovate its pricing strategies. This agrees with Guilding et al. (2015) who state that, based on the innovation economy, it can be
suggested that a higher level of competition in the marketplace forces firms to innovate; hence, they do their best to grow their performance.

5.3.3 Promotion Strategies and Competitiveness of SMEs

The business carries out promotions to encourage customers to tell others about their products and services. This agrees with Gupta and Zeithaml (2006) who state that promotion is part of specific effort to encourage customers to tell others about their services, and promotion is a key practice that facilitates the process of market exchange between stakeholders and the public at any given time. Promotion is a central part of the business’ product marketing mix. This agrees with Kotler and Keller (2014) who state that promotion holds a central role in the product marketing mix that any company may use to pursue its marketing objectives and advertising. The business builds its name through advertising. This agrees with Francis and Collins-Dodd (2014) who state that an organization attempting to create a long-term relationship, should build up of its name by using institutional advertising, while a service organization interested in promoting its brand name and its differentiated services would use a brand advertising policy.

The business creates awareness of its brand and product through advertisements on the different platforms. This agrees with Milan et al. (2013) who state that organization seeks through its marketing communications to build awareness and to impress customers looking for the best range of services, due to the former impression of services organizations as impersonal institutions with no interest in their customers as people, and business services as abstract and quite similar the institutional advertising have become more and more important. The firm uses sales promotion when it wants to achieve specific sales or marketing objectives. According to Ren et al. (2015) sales promotion is tactical marketing techniques with mostly short-term incentives, which are to add value to the product or service, in order to achieve specific sales or marketing objectives.

Price-based promotions are difficult for the business to use and adopt. This agrees with Hinterhuber and Liozu (2014) who observed that price-based promotions are difficult and probably dangerous to use for SME service markets. This is due to the fact that the price setting of service is already a difficult process, and that consumers often see lower prices as a result of lower quality. The business creates and maintains its identity and image
through public relation activities. According to Geldes and Felzensztein (2013) the essence of public relations (PR) is to look after the nature and quality of the relationship between the organization and its different publics, and to create a mutual understanding. The business uses trade exhibitions to create stronger relationships with its key suppliers and customers. This agrees with Becheikh et al. (2016) who state that an organization can attend trade exhibitions to create stronger relationships with key suppliers and customers as well as enhancing the organization’s presence and reputation within the market.

 Increased competition has forced the business to develop and maintain comprehensive relationship with its customers. According to Urdan (2015), the increased competition within the fast-changing environment of SMEs has led the SME organizations to develop and maintain comprehensive relationship with their customers. The sales persons in the firm have been trained on the art of selling and are aware of all the products and services available. According to Füreder et al. (2014) state that the relationship between the salesperson and customer is perceived as being of great importance for the marketing of SMEs. Hence, the sales force within this industry needs not only to be trained in the art of selling but also to be aware of all the services available and be able to clearly explain what each service offers.

 The firm has a customer database which it uses to build its relationship with clients/customers. According to Payne and Frow (2014), direct marketing is an interactive system of marketing, using one or more advertising media to achieve measurable response anywhere, forming a basis for creating and further developing an on-going direct relationship between an organization and its customers, to be able to create and sustain quality relationship with sometimes hundreds or even thousands of individual customers, an organization needs to have as much information as possible about each one, and needs to be able to access, manipulate and analyze that information, thus, the database is crucial to the process of building the relationship. The firm uses its customer database to identify their customers’ interests and follow up their individual usage. This agrees with Payne and Frow (2014) who observed that, through the Internet, SMEs can identify their customer interests. Furthermore, the Internet technology also makes it possible to follow individual customer usage. With the information gathered in an integrated database it is possible to read the customers’ needs and satisfy them.
5.4 Conclusions

5.4.1 Product Design Improvement and Competitiveness of SMEs

The study concludes that the businesses often introduced new product designs and packages that enhanced customer satisfaction, however, they required funds and skills in order to sustain and improve their competitive advantage, as well as requiring relevant customer information to improve product and packaging design. Introduction of a truly innovative new product captured more attention of the consumers, and the businesses preferred to maintain their existing market strategy, rather than drastically changing their course of action. The businesses did not hold a myopic view about their market place, thus marketing efforts for their new products accelerated the distribution and adoption process of the new product. Introducing new products in the market place enhanced the visibility of the new product towards customers, and distribution of new products in the businesses often focused on the growth of new channels. The businesses had customized their marketing activities with regards to their market segment, thus, increasing their competitive advantage, while targeting their market with the same product and the same marketing mix/strategy. The businesses provided products designed for a specific market segment that had been insufficiently addressed by competitors.

5.4.2 Pricing Strategies and Competitiveness of SMEs

The study concludes that the businesses strategically thought about pricing and proactively administering their prices to remain competitive, and owners in charge of pricing understood how their customers perceived prices. Before setting a price, the businesses usually decided on the strategy for the product and its proposed objectives, and these were based on the perception of benefits from the products being offered to the customers. The pricing and product performance of the firms were intimately related and their pricing strategy helped them to obtain larger returns, thus creating comparative advantage. The firms priced their products/services based on key information the competitors’ price levels, and managers used their knowledge and experiences to define prices. The businesses employed pricing reduction strategies that were based on what the competition was doing, and they added their profit margins on their production costs as a pricing strategy. The businesses had a greater focus on price setting based on their costs, compared to other strategies, thus, high levels of competition in the market encouraged the businesses to innovate their pricing strategies.
5.4.3 Promotion Strategies and Competitiveness of SMEs
The study concludes that the businesses carried out promotions to encourage customers to
tell others about their products and services since promotion was a central part of the
business’s product marketing mix. The businesses built their name through advertising, and
created awareness of their brand and product through advertisements on the different
platforms. The firms used sales promotion when they wanted to achieve specific sales or
marketing objectives, and price-based promotions were difficult for the business to use
and adopt. The businesses created and maintained their identity and image through public
relation activities, and they used trade exhibitions to create stronger relationships with
their key suppliers and customers. Increased competition had forced the businesses to
develop and maintain comprehensive relationship with their customers, and the sales
persons in the firms had been trained on the art of selling and were aware of all the
products and services available. The firms had a customer database which they used to
build their relationship with clients/customers, and they used their customer database to
identify their customers’ interests and follow up their individual usage.

5.5 Recommendations

5.5.1 Recommendations for Improvement

5.5.1.1 Product Design Improvement and Competitiveness of SMEs
The study recommends the SME owners to avoid the “wait and see”- attitude prior to an
eventual reaction. Instead, the firms should come up with business strategies and tactics
that will improve on their product designs in order to sustain their existing market
strategy, rather than drastically change their course of action.

5.5.1.2 Pricing Strategies and Competitiveness of SMEs
The study recommends the SME owners to create a working pricing strategy that does not
change all the time. They can achieve this by ensuring they make their business a brand
that creates perceived quality in the minds of the customers. This will facilitate their
ability to command the prices of their products/services.

5.5.1.3 Promotion Strategies and Competitiveness of SMEs
The study recommends the SME owners to ensure that they attend trade exhibitions to
create stronger relationships with key suppliers and customers as well as enhance their
organization’s presence and reputation within the market.
5.5.2 Recommendations for Further Research

The study was focused on SMEs within Nairobi County. Therefore, it recommends for similar studies to be conducted in other counties to establish how marketing innovation influences SMEs in the whole country. The study may also be extended to other firms in the different industries within the country.
REFERENCES


