

The value of a price differentiation strategy for small retail and wholesale businesses amongst price-sensitive consumers

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Abstract

The rationale for this study is to determine how small formal retail and wholesale businesses compete against increasing competition mainly from businesses located in new shopping malls in Soweto. This study focuses on price (as part of the value package) as a differentiation strategy option. According to small business management literature, price is not necessarily the preferred option for small businesses to compete upon. However, in a previously disadvantaged, price-sensitive area such as Soweto the research question is 'how important is price as a differentiation strategy and marketing aspect for small businesses amongst price-sensitive buyers, while facing tough competition from large retailers in nearby shopping malls?'

The research was conducted by means of a questionnaire and personal interviews with a sample of 650 small businesses in Soweto.

With this quantitative study, it was found that small formal retail and wholesale businesses in Soweto have to compete in terms of price, and those businesses that use price differentiation as a strategy and as the most important element of their value package (through low prices and best value prices), tend to survive and grow.

Key phrases

competitive advantage; price differentiation; price-sensitive area; small businesses; Soweto

1. INTRODUCTION

In the period of post-apartheid reconstruction following the political changes in South Africa in 1994, the new government immediately prioritised on the development of black-owned businesses as part of developing the South African small business economy (Rogerson & Rogerson 1997:33). The Soweto Township is the largest township in South Africa and is formed by an amalgamation of several different townships. As an integral unit of the city of Johannesburg, Soweto was incorporated into the Greater Johannesburg Metropolitan area in 2001.

Since almost 43 per cent of the population of the City of Johannesburg lived in Soweto in 2004, as highlighted by Ligthelm (2008:37) and Grant (2010:600), this township forms a substantial part of Johannesburg. The priority of the City of Johannesburg to fully integrate Soweto and to stimulate economic activity lead to the Soweto Retail Strategy in 2005 (as part of the Soweto Development Initiative) and the Township Development Programme for Soweto in 2008, among others.

Between 2005 and 2007, as part of the Soweto Township Development Programme, four large new shopping malls were built (Grant 2010:601; Zondi 2011:4), housing well-known national retail chains. Small businesses in Soweto now had to compete with businesses inside and outside the township area, as well as retail chains within the new shopping malls. The question is: *how do they compete and survive against strong competition?*

2. BACKGROUND: COMPETING AFTER MALL DEVELOPMENT

In a longitudinal study between 2007 and 2009, Ligthelm (2010:147) found that the following emerged as strong predictors of Sowetan independent small business survival, compared to businesses established in malls: selling similar products, offering better customer service, offering better product quality than businesses in a mall and selling *cheaper products* than those available from the mall.

These aspects confirm the different potential sources of competitive advantage for small businesses and were translated on operational level in survival strategies (based on realigning with the changing customer profile and demand structures), such as realigning product lines, reducing product lines and stock levels, adjusting the *pricing strategy* to ensure competitiveness, introducing convenience premiums and a strong focus on customer service (Ligthelm 2010:148). If it can be assumed that previously disadvantaged townships are still mainly characterised by poverty and high levels of unemployment despite drastic changes in South Africa (Maphalla, Nieuwenhuizen & Roberts 2010), many consumers in Soweto can still be regarded as being *price-sensitive* (which refers to consumers' response to price changes either upwards or downwards) (Lamb, Hair, McDaniel, Boshoff, Terblanche, Elliot & Klopper 2010:414) and/or *price-conscious* (implying that consumers strive to pay low prices) (Pride & Ferrell 2010:567).

In a different study by Strydom (2013:2870) to determine the retail patronage of Sowetan retailers, it was concluded that individuals shopping in the Soweto Township are the middle-to lower-income group who have been residing in the township for more than ten years,

confirming their price-sensitivity. In contrast, it was found that the high-value-items were mainly bought outside the township by the high-income groups (Strydom 2011:171; Strydom 2013:2870).

From the above discussion it seems that the wholesalers and retailers located in Soweto are mainly serving price-sensitive and/or price-conscious consumers still shopping within the boundaries of this township, probably by following survival strategies (e.g. offering lower or best value prices) in order to stay competitive amidst large shopping malls. The reasons for focussing this study on Sowetan businesses is echoed by both Nkosi, Bounds and Goldman (2013:4) and Strydom (2011:169) in that the Soweto Township has always been viewed as a leading city where innovative approaches are actively followed besides Soweto being a retail trendsetter for other townships in South Africa.

3. LITERATURE REVIEW

The biggest challenge facing small businesses worldwide is competition (Scarborough 2011:99). In order to survive, small business owners need to identify their competitive advantage over competing businesses. Most profitable business strategies are based on *differentiation*, which implies offering consumers something of *value* which differs from competing offerings. Differentiating variables (or options) can among others be *price*, quality, product attributes or image (Lamb *et al.* 2010:214). Being competitive implies the unique way in which businesses are able to blend the different elements of the marketing mix with *price*, product, place and promotion being the main elements (Mutsikiwa, Basera, Dhlwayo & Muzangwa 2012:82).

3.1 Differentiation based on value

Value is an important means of gaining a competitive advantage, which necessitates the differentiation of offerings (Reijonen & Laukkanen 2010:188-119). Hatten (2012:165) concluded that when providing value to the customer, businesses compete on the following three grounds: operational excellence (*best, lowest price*), product leadership (best product, high quality) and customer intimacy (best service). When defining the business' competitive advantage, the owner should therefore consider the following: products they sell, service they provide, *pricing* they offer and the way they sell. Pricing refers to the entrepreneur's decision on low prices or value offered (Scarborough 2011:89).

Mutsikiwa *et al.* (2012:80) concluded that a market-driven pricing strategy based on customer expectation is essential as part of establishing competitive advantage. Customers

might perceive value as more quantity for less money, better or extra services, or speed and delivery. Some customers might place greater value on lower prices, while others may prefer time or convenience. In some cases, customers may even seek a combination of these factors, such as speed of delivery together with lower prices (Bressler 2012:9). From the above it can be concluded that the concept of “value” can have different meanings, implicating offering a value package consisting of various elements to satisfy consumers.

3.2 Differentiation solely based on price

Although price is the easiest marketing mix variable to change, the price charged is more than merely the cost of the item plus a profit percentage, since the price can imply value or worth (Katz & Green 2012:287). Most owners of small businesses do not have any specific pricing strategy and set prices by guessing, without knowing that the optimum price will eventually be based on the demand for the offering, the value delivered to the customer, competitors’ prices, the business strategy and product placement (Katz & Green 2012:288). Deakins and Freel (2012:223) postulated that charging the cheapest prices is most probably not a sustainable, profitable strategy, particularly for small businesses since a lower price has implications for margins and the ability to finance future growth. Petty, Palich, Hoy and Longenecker (2012:477) proposed that a small business should attempt to distinguish its offering in such a way that small price increases will have little resistance from customers and thereby result in increased total revenue.

In addition, price is frequently perceived as an indication of quality and a substantially lower price may suggest, correctly or not, poor quality to customers (Mariotti & Glackin 2012:70; Mutsikiwa *et al.* 2012:80). In this regard, Manana (2009:7-8) agreed with other research findings that although low prices can accelerate retail purchases, a positive relationship can be identified between the price of the product and the perception thereof. As a result, consumers with limited information tend to use price as an indicator of quality and may subsequently sometimes choose retailers offering high-priced items with perceived better quality (Mutsikiwa *et al.* 2012:80).

Having lower costs (or charging lower prices) is not a bad decision as such. However, if lower costs or prices form the sole basis of competitive advantage, growth is less likely to follow (Deakins & Freel 2012:224). In contrast, penetrating the market with relatively low prices tends to be effective in a price-sensitive market. With demand being elastic in such markets, prices should decline more rapidly to expand the market being served. Having price-sensitivity and increased pressure from competitors in the market, the result is often

lower initial pricing followed by a slow decline in price as time passes (Lamb *et al.* 2011:426).

Bressler (2012:3) and Box and Miller (2011:2) agreed that small businesses will rather select other differentiating options than *low prices* as a basis for their competitive advantage. Based on its size, it is unlikely that many small businesses will be able to effectively compete on price, necessitating competition based on non-price factors (such as innovation, product features, service, product quality, promotion and packaging) to grow the business (Deakins & Freel 2012:224; Pride & Ferrell 2010:554).

Since competing on *price* seems to be a less attractive *strategic option* for small businesses, Reijonen and Laukkanen (2010:119) concluded that a niche strategy seems to be the most appropriate strategy for those small businesses with limited resources offering differentiated products to a smaller segment in an effort to avoid competition with bigger competitors.

From the above it can be deduced that although literature in general discourages the use of price alone as the differentiation option, penetrating the market and competing successfully in a price-sensitive market can be achieved through low prices. This study will focus on prices in general (both *low prices* and *best value prices*) and with pricing strategy as an option for *differentiating* Sowetan business owners.

3.3 The influence of competitor proximity on pricing

Allen (2012:117) warned that once entrepreneurs realise that price has become the most important differentiator, the time for innovation has arrived and new value should be created soon. However, the more participants in the market, the more intense product differentiation should be to obtain exclusivity (Allen 2012:116). In dealing with competition, entrepreneurs should make sure to provide meaningful differentiation in solving customer needs.

Competitors have a major influence on the success of the pricing strategy. The number and proximity of competitors selling substitute offerings can determine the price charged. The closer the competition is geographically, the more influence it will have on the pricing decisions and the less control business owners have over their prices (Hatten 2012:328). Direct competition therefore makes product differentiation necessary in order to compete on aspects other than price (Hatten 2012:327). Blythe (2009:465) referred to “meet-the-competition pricing strategy” of having the advantage of avoiding price wars and stimulating competition in terms of non-price factors. From the above literature it thus seems that the closer competition, the more businesses should focus on non-price differentiation.

4. RESEARCH QUESTION AND HYPOTHESES

The research question arising from the above literature discussion is *how effective is a differentiation strategy based on price for small sustaining businesses amongst price-sensitive consumers located in certain areas, while facing increased competition from larger businesses?*

The following hypotheses (H1-H4) were developed to establish whether a price focus will influence the survival and growth of small formal retailers and wholesalers amidst fierce competition.

The basis upon which the following four hypotheses were built is that if *price is used as a differentiation option* and a marketing aspect (including using *low prices* and *best value prices*) it can enhance competitiveness for small businesses in the Soweto Township:

H1: There is a relationship between the different pricing variables (*price as a differentiator*, the use of *low prices* and the importance of *best value prices*).

H2: There is a difference between businesses with different growth tendencies with regard to their focus on using *low prices* as part of marketing, their focus on *best value prices* as an important marketing aspect and their use of *price as a differentiator* as the competitive strategy.

H3: There is a difference between business “distance” groups with regard to the importance of *price as a differentiator*, the *use of low prices* and the *importance of best value prices*.

H4: There is a difference between businesses surviving for less than 5 years and businesses surviving for 5 years and longer with regard to their focus on *using low prices* as part of marketing, their focus on *best value prices* as an important marketing aspect and their *use of price as a differentiator* as the competitive strategy.

Before addressing the hypotheses, a discussion of the *research methodology* and a description of the *key profile aspects* and the *importance of price* (as a differentiator and a marketing aspect) are necessary.

5. METHODOLOGY

In this section a discussion of the sampling and methodology will be given, where after a profile of the businesses interviewed will be presented. The rest of the section explores empirical findings on the differentiation and marketing variables used; the three price

variables; and the difference between the growth tendencies, the distance from the nearest shopping mall and the age of the business respectively with regard to the different price-related variables.

5.1 Sampling and methodology

To address the research question and hypotheses a survey was conducted in 2012 among a representative sample of small businesses in Soweto. The universe of the study consisted of formal, independent small businesses situated in Soweto. For the purposes of this study, formal businesses refer to that part of the economy where businesses operate with fairly well-developed systems and are incorporated into the formal economic and fiscal structures, which implies payment of relevant taxes and being captured in government statistics. The sample excluded branches of chain stores, franchises, street vendors, home-based businesses, professional and business services and transport businesses.

Interviews were conducted with the owners or managers of the businesses, since the measurement of entrepreneurial ability to compete and survive forms an important element of this study.

The absence of a list of small businesses operating in Soweto necessitated the use of a *multi-stage quota sampling methodology*. The total sample was allocated according to different segments, namely shopping malls, shopping centres outside malls and industrial areas. At least 50 small businesses in shopping malls had to be included in the study. In addition, at least 50 stand-alone and small businesses in small shopping centres outside malls had to be selected randomly in the following segments: shopping centres with between two to five businesses (maximum 2 interviews per centre); shopping centres with between six and ten businesses (randomly every second business); shopping centres with between 11 and 20 businesses (randomly every third business); and shopping centres with more than 20 businesses in the centre (randomly every third business).

The sample was set at 650 formal businesses which included wholesalers, retailers and small manufacturers. For the purposes of this article the responses of *only the formal retailers and wholesalers* were analysed, constituting 497 respondents. The reason for focusing on these businesses was the fact that they constituted a substantial part of the chosen sample. Furthermore, in the pre-1994 political dispensation, Blacks were allowed to own no more than one undertaking, which had to be in the retail sector (Randall 1996:665). With a history of domination of small businesses offering basic products to low-income

consumers (Ligthelm 2008:37), it was not surprising that the majority of respondents in this study were from the wholesale and retail sector.

Trained fieldworkers conducted face-to-face interviews and strict ethical principles were adhered to. The completed questionnaires were checked for inconsistencies and omissions and the captured data were processed and analysed using SPSSv21. In this quantitative study, both descriptive and inferential statistical methods were used to analyse the data. Nonparametric tests, specifically the Mann-Whitney and Kruskal-Wallis tests, were used due to the variables investigated being measured on an ordinal scale. The Mann-Whitney test is regarded as the non-parametric alternative to the Student t test and the Kruskal-Wallis test as the non-parametric alternative to the regular one-way analysis of variance (ANOVA). Spearman's Rho rank-order correlation coefficients were used to evaluate the strength of the relationships between the different combinations of ordinal scaled variables.

5.2 Profile of small businesses

In terms of sustainability amidst fierce competition the questionnaire included questions on key profile aspects, such as *distance* from the nearest large shopping mall (representing a concentration of competitors), *age* of the businesses (indicating ability to survive and gain experience) and the *performance* of these businesses (in terms of monthly income and income change patterns over a year). The findings are summarised in Table 1.

5.2.1 Distance from nearest shopping mall

When analysing the distance from the nearest shopping mall in Soweto, 41% of these businesses were more than 3 kilometres away, implying that almost 60% were in *relative close proximity to these shopping malls*.

5.2.2 Age of the business

Generally, business age can be an indication of the entrepreneur's business experience and ability to survive. Business age usually affects its ability to grow and move to the next size. Deakins and Freel (2012:221) state that, in general, the bigger a business becomes, the more likely it will survive longer and become older – thus the sustainability improves. Increased experience and size can also be instrumental in obtaining financial and other resources.

Since just more than half of the businesses (50.3%) were *five years and older*, a fairly high level of business maturity can be assumed for this category. With 19.9% of the businesses in

operation for at least three years, but less than five years, most wholesale and retail owners interviewed in this study (70.2%) had therefore been in operation for three years and more. On the other hand, survey findings confirmed new entrants into township businesses, with 13.3% of the respondents in operation for less than a year. These findings are in line with the general rule of thumb used by practitioners, as well as international statistics that most small businesses fail within 5 years of existence. The Small Business Advocacy (a United States government agency supporting small businesses), as well as official statistics in the United Kingdom (as quoted by Deakins & Freel 2012:19) show that 50% of small business cease trading by the fifth year.

TABLE 1: Key profile aspects of respondents

Key profile aspect	Number of respondents	Percentage (%) of respondents
Distance from nearest shopping mall		
Less than 1 km	97	19.5
Between 1 and 3 km	177	35.6
Between 3.1 and 5 km	88	17.7
More than 5 km	116	23.3
(Missing value =19)		
Age of business		
Less than 1 year	66	13.3
1 year but less than 3 years	82	16.5
3 years but less than 5 years	99	19.9
5 years and longer	250	50.3
Turnover past month		
Less than R5000	65	13.1
R5000 - R10000	158	31.8
R10001 – R30000	150	30.2
R30001 – R50000	78	15.7
R50001 – R100000	33	6.6
More than R100000	13	2.6
Change in turnover during past year		
Expanded	253	50.9

Key profile aspect	Number of respondents	Percentage (%) of respondents
Contracted	69	13.9
Remained the same	171	34.4
(Missing value=4)		

Source: Compiled by authors from survey results

5.2.3 Performance: turnover and turnover growth tendencies

When analysing the turnover during the past month, the majority (62%) showed an *income of between R5000 and R30000 during the past month*; thus truly representing small businesses. (The concepts turnover and income were used as synonyms in the questionnaire.)

With regard to growth tendencies in terms of turnover, the majority (85.1%) of the respondents indicated that their businesses had either expanded (50.9%) their income during the past year, or remained unchanged (34.2%). Despite the perceived increase in competition posed by large retail chain stores located in new shopping malls in Soweto, the majority of small businesses still *experienced growth tendencies in income* and thus seemed to compete successfully.

5.3 Competitive advantage and differentiation

When the small business owners were asked if they differentiated themselves from competitors, 86.1% confirmed that they attempt to differentiate their businesses from competitors. They were also further requested to rate the relative importance of the variables used to differentiate their businesses on a five point scale ranging from unimportant (rating=1) to very important (rating=5).

Although all the identified attributes yielded relatively high scores (see Table 2), the following was found when grouping the ratings 4 and 5 signalling important and very important: *price* (78.3%), *close relationship with customers* (76.7%), *shopping hours* (75.1%) and *personal attention* (74.7%) stood out as variables rated as important and very important by respondents for differentiating their businesses, confirming literature (Bressler 2012; Deakins & Freel 2012; Hatten 2012; Lamb *et al.* 2010; Pride & Ferrell 2010).

Although *price* was regarded as the *most important differentiating factor*, this variable was followed closely by the other variables constituting sources of competitive advantage of small businesses above their larger counterparts.

TABLE 2: Relative importance of variables used for differentiating businesses from competitors

Attribute	Percentage (%) of respondents that rated the attribute as important or very important
Price	78.3
Close relationship with customers	76.7
Shopping hours	75.1
Personal attention	74.7
Physical location	68.2
Regular promotions, e.g. advertising	62.0

Source: Compiled by authors from survey results

The above findings were, to some extent, in line with the responses on another question where the respondents were required to rate the importance of a predetermined list of 15 marketing aspects on a 5-point scale where 1 was very unimportant and 5 was very important. These aspects were selected for the purpose of this study.

Table 3 shows the percentages of the top ten marketing aspects with a rating of important and very important (4 and 5). The following three marketing aspects yielded the highest score: *quality of products* (95%), *enough product variety* (89.1%) and *near to customers* (87.3%).

TABLE 3: Rating of the importance of marketing aspects

Marketing aspects	Percentage (%) of respondents that rated the marketing aspects as important (4) or very important (5)
Quality of products	95.0
Enough product variety	89.1
Near to customers	87.3
Best value for prices	85.3
Best brands	84.9
Visual appearance of shop	83.3
Near public transport	79.0
Lowest prices in the area	76.0

Marketing aspects	Percentage (%) of respondents that rated the marketing aspects as important (4) or very important (5)
Appealing in-store appearance	75.8
Fast checkout	73.0

Source: Compiled by authors from survey results.

Where the respondents previously indicated that price was their most important differentiating factor, they now indicated that *quality and product variability* are even more (though slightly) important than price when considered as a marketing aspect. The importance of *best value prices and lowest prices in the area* also scored high with 85.3% and 76% respectively, indicating that these price-related issues also seem to be important to very important for the majority of the respondents.

In conclusion, the small business owners regarded the differentiation options of price and location (closeness to customers), as well as product quality and product variety as marketing aspects as most important for the business.

Further inferential statistics were done in terms of *price as a differentiator* to determine whether there is a difference in the *use of low prices* and the importance of *best value prices* by the entrepreneurs interviewed. These three price questions/items were analysed separately as single items and no factor analysis was applied since none of these were constructs constituting several items.

5.4 Price as a differentiator

Despite literature (Box & Miller 2011; Bressler 2012; Deakins & Freel 2012; Manana 2009; Reijonen & Laukkanen 2010) showing that competition based on prices only is not the most appropriate strategy for small businesses, several price-related questions were asked to the small business owners situated in the price-sensitive area. This enabled the determination of their perspectives with regard to different price differentiation aspects.

As already discussed the two questions where price featured as an alternative also featured other aspects related to the value package that the respondents had to rate individually in terms of their importance.

A third separate question focused on whether low prices are used in marketing and the respondents had to indicate whether they use low prices on a scale from 1 to 5 (1=do not use at all and 5=use to differentiate). The analyses of the results on the price-related questions

focus on the questions respectively related to *price as a differentiator* (relating to the competitive strategy), the *use of low prices* and the importance of *best value prices* (as marketing aspects).

The first hypothesis aims to determine the alignment within the businesses with regard to the three price aspects.

Hypothesis 1: There is a relationship between the different pricing variables (*price as a differentiator*, the use of *low prices* and the importance of *best value prices*).

Inferential statistics was done to determine the statistical significance and strength of the relationship between the three different price variables. Spearman's Rho rank-order correlation coefficients were used to evaluate the strength and statistical significance of the relationships between the different combinations of the three ordinal scaled price variables (see results in Table 4).

TABLE 4: Spearman Rho rank-order correlation coefficients

Variable combination	Spearman's Rho	p value
Importance of price as a differentiator and use of low prices	0.427	0.000
Use of low prices and importance of best value prices	0.330	0.000
Importance of price as a differentiator and importance of best value prices	0.343	0.000

Source: Compiled by authors from survey results.

The results indicated that statistically significant relationships exist at the 1% level of significance between all combinations of the three price variables. The value of the rank order correlation coefficient varied between 0.330 and 0.427, indicating moderate positive relationships between these variables. These results confirmed that businesses were aligned with regard to these price strategies.

The Spearman Rho coefficient between using *low prices* and importance of *best value prices* as marketing aspect was the lowest (0.330), possibly indicating that when low prices are used, best value prices are not necessarily considered to be important. This can be the result of a possible short-term orientation of some entrepreneurs to focus solely on price without considering value for money as a more sustainable option. However, the positive

relationship (although weakest) between the use of *low prices* and the importance of *best value prices* could also imply that the entrepreneurs perceived best value prices mainly as being low prices.

The Spearman Rho coefficient between the importance of *price as a differentiator* and use of *low prices* was the highest (0.427), indicating that both of these are considered as important in terms of pricing decisions. Although a moderate, positive relationship was seen between both the importance of *price as differentiator* and using *low prices* on the one hand and the importance of *price as a differentiator* and *best value prices* on the other hand, the relationship between the importance of price as a differentiator and using low prices was stronger. This could imply that although price was seen as an important differentiator, the focus of respondents seemed to be more on using low prices, but also considering best value prices (although to a lesser degree). The questionnaire, however, did not include a question to specifically determine the respondents' perception of what the concept of best value prices entails. As a result, it could not be determined whether respondents viewed best value prices as either lower or higher prices.

To summarise the above responses to the different price-related questions and conclude hypothesis 1, the businesses were in alignment with regard to the price aspects and displayed a moderate positive relationship between the importance of *price as a differentiator* and *best value prices* as a marketing aspect and using *low prices* in marketing.

5.5 Price and growth tendency

The performance of the small businesses in Soweto was analysed to determine whether they were surviving and growing amidst fierce competition. The different price-responses (discussed above) were therefore analysed to determine whether the small businesses that survived and grew differ from the non-growing businesses in terms of the use of *low prices*, and their perception regarding the importance of *best value prices* and *price as a differentiator*.

The following hypothesis will thus be tested:

Hypothesis 2: There is a difference between businesses with different growth tendencies with regard to:

- their focus on using *low prices* as part of marketing
- their focus on *best value prices* as an important marketing aspect

- their use of *price as a differentiator* as the competitive strategy.

The Kruskal-Wallis test was used to analyse the above hypothesis. The results are shown in Table 5.

TABLE 5: Kruskal-Wallis test results

	Using low prices as part of marketing	Best value prices	Use of price as a differentiator
Chi-square	64.404	40.259	34.864
Degrees of freedom	2	2	2
Asymptotic significance	.000	.000	.000

Source: Compiled by authors from survey results

All the price strategies differed statistically significant at the 1% level of significance between the growth tendency groups ($p=0.000$). The mean ranks indicated that those who experienced an increased income (mean rank of 289.52) tended to perceive *low price* marketing as more important than those who experienced a decrease in income (mean rank of 180.20) and those that remained the same (mean rank of 208.19).

Furthermore, those who experienced growth (increase) in income (mean rank of 281.69) tended to perceive *best value prices* as more important than those who experienced a decline in income (contracted) (mean rank of 190.24) and those that remained the same (mean rank of 218.58).

Lastly, the mean ranks indicated that those who experienced growth in income (mean rank of 232.88) tended to perceive *price as a differentiator* as more important than those who experienced a decrease in income (mean rank of 156.66) and those that remained the same (mean rank of 199.30).

To summarise the above analyses related to the growth pattern and different price-related elements and to conclude hypothesis 2, those businesses that grew tended to focus more on *low prices* and *best value prices*, and also regarded the use of *price as a differentiator* as more important than businesses who showed no or a negative growth pattern.

5.6 Price and distance from large shopping malls

It was indicated in the introduction that competitors have a major influence on the success of the pricing strategy and the closer the competition is geographically, the more small businesses should preferably compete in terms of product differentiation than in terms of price (Hatten 2012:327-328).

The questionnaire did not contain a question on how far the business's competitors are, but only a question on how far the business was from the large shopping malls. Although distance from the shopping mall does not indicate the distance from all the competitors it might be an indication of how far away a concentration of competitors is. The following hypothesis will be tested in this regard:

Hypothesis 3: There is a difference between business "distance" groups with regard to:

- the importance of *price as a differentiator*
- the use of *low prices*
- the importance of *best value prices*.

Kruskal-Wallis tests were used to test the hypothesis and the results are shown in Table 6.

TABLE 6: Kruskal-Wallis test results

	Importance of price as differentiator	Use of low prices in marketing	Importance of best value prices as marketing aspect
Chi-square	71.773	65.517	89.949
Degrees of freedom	3	3	3
Asymptotic significance	.000	.000	.000

Source: Compiled by authors from survey results

The results indicated that there existed a statistically significant difference at the 1% level of significance between the "distance" groups with regard to all three pricing aspects. Businesses inside or closest to the shopping malls (less than a kilometre away) (mean rank=290.07) and those who were more than 5 kilometres away (mean rank=323.62) tended to regard *price as a differentiation strategy* as more important than those between the other two distances (1 to 3 km and 3.1 to 5 km) (mean ranks of 219.04 and 259.27 respectively).

Also, businesses inside or closest to the shopping malls (less than a kilometre away) (mean rank=322.69) and those who were more than 5 kilometres away (mean rank=390.61) tended to regard the *use of low prices* in marketing as more important than those between the other two distances (1 to 3 km and 3.1 to 5 km) (mean ranks of 256.77 and 301.13 respectively).

Businesses inside or closest to the shopping malls (less than a kilometre away) (mean rank=354.53) and those who were more than 5 kilometres away (mean rank=386.67) tended to regard *best value prices* as marketing aspect as more important than those between the other two distances (1 to 3 km and 3.1 to 5 km) (mean ranks of 237.66 and 311.04 respectively).

To conclude hypothesis 3, business owners closest to shopping malls and those far away (more than 5 km away) compared to the other distance groups tended to regard *price as a more important differentiator*. Also, they tended to use *low prices* and considered *best value prices* as more important. It is obvious, and in line with the findings of Ligthelm (2010:147–148), that small businesses close to malls have to compete by, among others, ‘selling cheaper products than the shops in the mall’, and, according to him, small businesses’ survival strategy, among others, should be ‘the adjustment of their pricing strategy to ensure competitiveness’.

The reasons why small businesses far away from shopping malls regarded the three price aspects (*price as a good differentiator*, using *low prices* and *best value prices*) as more important, were not obvious and one can only speculate about them. One reason could be that although further away from the shopping malls, they are still within the Soweto boundaries serving the lower-income, price-sensitive group mainly shopping inside the Soweto Township; necessitating a focus on lower prices.

5.7 Prices and age of business

In terms of survival, the different price-responses were analysed to determine the difference in the age of small businesses with regard to their use of *price as a differentiator*, using *low prices* and focussing on *best value prices*. The businesses were divided into two independent groups, i.e. those having survived for less than 5 years and those that were able to continue surviving after being in business for 5 years.

The following hypothesis will be tested in this section:

Hypothesis 4: There is a difference between businesses surviving for less than 5 years and businesses surviving for 5 years and longer with regard to:

- their focus on using *low prices* as part of marketing.
- their focus on *best value prices* as an important marketing aspect.
- their use of *price as a differentiator* as the competitive strategy.

The Mann-Whitney test was used to test the hypotheses as two independent groups were identified (as discussed above) and the dependent variables were measured on an ordinal scale. The results are shown in Table 7.

TABLE 7: Mann-Whitney test results

	Use of low prices	Price as differentiator	Best value prices
Mann-Whitney U	49600.500	52543.000	48741.500
Asymptotic significance (2-tailed)	.112	.599	.034
a. Grouping variable: b1_survival			

Source: Compiled by authors from survey results

The results indicated a statistically significant difference at the 5% level of significance between the two business age groups only with regard to the importance of *best value prices* as marketing aspect. No statistically significant differences were found between the two business age groups with regard to the use of *low prices* and *price as a differentiator*.

In terms of their focus on *best value prices* the test results showed that those who were in business for less than 5 years (mean rank=340.69) tended to perceive best value prices as more important than those who have been in business for 5 years and longer (mean rank=312.84). Although non-significant, businesses that existed for less than five years tended to perceive the use of *low prices* in marketing their business as more important (mean rank=336.15) than those in business for 5 years and longer (mean rank=315.50).

The final issue in this regard was whether businesses considering *price as an important differentiator* are those that matured and remained in business. The test results showed that businesses trading for less than 5 years (mean rank=329.24) tended to perceive price as a differentiator as slightly more important than those in business for 5 years and longer (mean rank = 324.69).

To summarise the above analyses related to the age of the businesses and conclude hypothesis 4, those businesses that were younger (being in business for less than 5 years)

tended to focus more on *low prices* and *best value prices*, and also regarded the use of *price as a differentiator* as slightly more important than businesses that were more mature (being in business for 5 years and longer).

These findings confirmed literature (Lamb *et al.* 2010) that penetrating the market with relatively low prices can be effective in a price sensitive market. The slight difference in the mean ranks indicated that both groups viewed the differentiation of the business based on price as important, which showed the overall focus on price of wholesalers and retailers doing business within the boundaries of the Soweto Township.

6. CONCLUSION

Small businesses can compete and differentiate themselves by providing a unique value package. In this study, it was found that the value package used by small businesses to differentiate themselves includes *price*, close relationship with customers, personal attention and shopping hours, with *price* as the most important differentiator.

It was found that the small businesses regarded price as the most important differentiator and an important marketing aspect. When looking at the marketing aspects most preferred by the small businesses, product quality and variety also formed part of the value package. However, Ligthelm (2010:148) is of the opinion that small businesses in Soweto, competing with shopping malls, need to realign product lines and reduce product lines and stock levels as part of their survival strategies

In terms of distance from shopping malls, those closest to shopping malls and those that were far away (more than 5 km away) compared to the other distance groups tended to regard *price as a more important differentiator*. Also, these distance groups tended to use *low prices* and consider *best value prices* as more important. These findings confirmed that small businesses close to malls have to compete by following survival strategies, such as selling *cheaper products* and adjusting their *pricing strategy*, as proposed in literature. The reasons why small businesses far away from shopping malls regarded price as a good differentiator are not obvious.

In the literature study, it became clear that many researchers and authors are of the opinion that price is not the optimal differentiation strategy and marketing strategy for small businesses. In this study, it was found that small businesses do compete in terms of price and those businesses focussing on price differentiation as a strategy tended to survive and

grow despite increased competition. This could be an indication that *differentiation based on price (low prices and best value prices)* may be a survival strategy in certain circumstances.

Furthermore, the younger businesses (less than 5 years in business) deemed the *price aspects* as more important than the more established businesses (being in business for 5 years and longer). The slight difference between the age groups in terms of the price aspects might indicate an *overall price focus* of businesses in Soweto, irrespective the age of the business.

As long as the tendency of outshopping exists, those shopping within the boundaries of Soweto will probably be the group able to afford the lower prices charged (as opposed to the higher income groups shopping for higher priced items outside Soweto). Until these patterns have changed substantially, small businesses in Soweto will be able to survive and grow by charging lower prices.

With increased business sophistication and training, small business owners would be able to broaden their perspective regarding price *not only to include low prices, but also best value prices* (even if this would imply charging higher prices). Through increased marketing knowledge small business owners will be empowered to successfully blend the different marketing mix variables in serving their market with the demanded value package.

More advanced marketing knowledge will sharpen small business owners' perceptiveness to changes in consumer preferences and shopping patterns to adapt the focus of the value package to include possibly more non-price differentiating factors.

The findings of this study can be valuable to small business owners in other townships to confirm their decision to have a price focus when deciding on the value package for lower-income shoppers buying mainly within certain boundaries.

This study contributed to existing literature by providing an example of how business survival and growth can happen under specific circumstances with strategies typically not portrayed in literature. In conclusion, in a lower socio-economic area such as Soweto where people are price-sensitive, price differentiation seems to be a good competitive strategy. Small business owners functioning within the boundaries of a specific area (almost captured market) characterised by lower socio-economic circumstances and tough competition, will be able to survive with a value package *focussing on price*.

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