



## **INFLUENCE OF BARGAINING POWER OF BUYERS ON PERFORMANCE OF REGISTERED FREIGHT AND FORWARDING FIRMS IN NAIROBI CITY COUNTY IN KENYA**

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**Abstract:** The aim of this research was to determine effect of buyer bargaining power on the performance of registered freight and forwarding firms in Nairobi City County, Kenya. The study's target population was all the 346 freight and forwarding companies registered in Nairobi City County. Stratified sampling was used to choose 20% of the total target respondents, resulting in a total of 69 potential respondents. The study gathered data via the use of a questionnaire as the main research instrument. The data gathered was evaluated qualitatively and quantitatively before being combined for final interpretation. Pilot study was conducted to determine reliability and validity of data. Data was collected by use of questionnaires, Descriptive statistics including frequencies, percentages, graphs, and charts was utilized to produce measures of central trends such as the mean and standard deviation. Additionally, inferential statistics such as regression analysis, correlation analysis, and analysis of variance (ANOVA) was used to determine the connection between the dependent and independent variables. The study found that bargaining power of buyers positively and significantly influence the performance of this freight and forwarding firms in Nairobi City County, Kenya. The study recommends registered freight and forwarding firms to pay close attention to buyers as they are central towards enhancing performance and have an influence on the market through their direct demand for improved quality goods at low-cost prices. Moreover, based on significant relationship between bargaining power of buyers and performance of registered freight and forwarding firms, there is need to select suppliers depending on their differentiated price advantages.

**Keywords:** Competitive Forces, Bargaining Power of buyers, Freight Forwarding Firms

### **Introduction**

Globally, many companies are facing significant levels of uncertainty, according to the 2019-2020 global competitiveness study, as economic and political pressures alter technology and geopolitical dynamics. Buyers' bargaining power is a term that refers to the customers' ability to influence price reductions (McGrath, 2013). Additionally, it is an assessment of the ease with which buyers can drive up prices. This is determined by the market's customer base, the size of individual orders, the difference amongst competing firms, price sensitivities, the organizations importance of each consumer, the capability to substitute, and the cost to the buyers of switching from supplier to supplier (David, 2013). If a company has a small number of strong consumers, such customers often have the ability to control policies (Barassa, 2010).

As a result of the generic and identical nature of goods and services, competition is especially fierce among logistics, freight, and forwarding businesses. (Grant, 2012). Freight Forwarding (FF) trade gives a collection of abilities to energize the advancement of shipments. The FF has for quite a while been seen as one of the key agents included remarkably in the transportation of cargoes from a state of inception (for instance the transporter) to the destination point (for example the consignee) (Lai, & Cheng, 2014). There are four main categories in the freight industry, namely; overland transportation, global forwarding, contract logistics and integrator (Hanke, 2012). Each of these uses different means of transport to deliver a submitted document, service or goods from one person to next or from one company to another. For instance, the overland transportation uses tracking and rail forwarding to get the job done while the global forwarding utilizes sea and air freight to get its job done.

The freight forwarding market is affected by a number of factors that include but not limited to these: rapid response to a niche, low inventories and changes in world supply chain command. Historically, there have been major transformations in the European freight forwarding market due to a large volume of acquisition. This has seen merging of smaller forwarders in the chain with large logistic companies for realization of “one-stop-shop”. This has seen efficiency and enhanced rapid response due to realization consolidation of these industry that once was highly fragmented (Freight Forwarding Market, 2014).

Yao (2010) argues that the majority of buyer's advocate for price reductions while maintaining a high standard of quality for products and services. As Lee et al. (2011) note, customers can increase or decrease the price of a product based on its quality in response to industry threats. The buyers' power is a critical horizontal force that has a direct effect or influence on the value appropriation generated by a particular industry (Karagiannopoulos et al., 2009). However, buyer's power is heavily influenced by the size and concentration of the customer base. Price reductions, improved or higher-quality services, and outperforming industry competitors for increased firm profitability all require powerful customers.

According to Shah and Siddiqui (2010), buyers can be powerful if they consider the relative industry's environment when negotiating, particularly when the prices are absurd, and then raise their thumb first to call for price reductions before calling it off. Customers' bargaining power varies by group. For instance, a strong bargaining position is demonstrated when the number of buyers is small or when a single customer purchases large volumes relative to the vendor's size. Large volume buyers are typically dominant in industries with a fixed cost structure.

The opening of new markets and growth in volumes has drawn interest in freight forwarding industry from existing and new players and it will be interesting to find out how they are positioning themselves in the industry. In fact, there are new bigger ships that have begun calling the port of Mombasa for example MV MSC Portugal, MV Ever Diamond and MSC Maxine in 2018 and Gulf Badru Group (Evergreen) since 2010 as well as the entry of CFSs such as Makupa terminal, Compact CFS, Africa Line CFS, Mombasa container Terminal (MCT), Mombasa Inland Container Terminal (MICT), Autoport CFS, Consolable and Boss freight terminals as well as expansion of existing Inland Container Depot-Nairobi (ICDN). The growth in CFS and construction of Standard Gauge Railway (SGR) to rail containers to ICDN is attributed to efforts by Kenya Port Authority (KPA) to decongest the port to allow faster offloading of vessels, reduce costs of storing containers in the port and generally make the port more efficient. In this light, KPA also introduced an online operating framework called Kilindini Waterfront Automated Terminal Operating System (KWATOS) for port users.

Social and economic change are fast, increasing the risk associated with conducting business. Competition has become tougher, and industries have consolidated. The freight forwarding industry in Kenya has not been spared from the dynamism of the environment and has actually been caught at the center.

## **Problem Statement**

Kenya Vision 2030 is the country's long-term development plan, with the goal of developing a globally competitive and wealthy economy; it is a critical component in Kenya's transformation into an industrialised country (Government of Kenya, 2017). Unpredictable times or the application of wrong strategies has caused failure or even closure to most of the organizations due to such unknown forces that affect their operations. Despite the effort by the government, the dynamic market environment has also affected more specifically the operations and performance of freight forwarding firms more so because they lack informed choices due to increased competition in the market from both new and old players in this industry to avert financial distress. The financial distress in this industry is as result of worldwide economic volatility, ferocious contention, and customer power of buying due to transparency in the information from competing firms, extensive overcapacity and wide range of choices to choose from in business transactions. Various studies have been conducted, Kung'u (2017) on the effects of bargaining power of the buyer on economic improvement in steel manufacturing companies, Kinyuira, (2014). Effects of Porter's Generic Competitive Strategies on the Performance of Savings and Credit Cooperatives, Zhao, Wu,& Sha, (2017). Bargaining power of suppliers and buyers, and accounting Conservatism evidence from Chinese manufacturing listed companies. None of the studies looked at bargaining power of buyers on performance of registered freight and forwarding firms in Nairobi City County in Kenya, hence the need to carry out the research.

## **Objective of the study**

Influence of bargaining power of buyers on performance of registered freight and forwarding firms in Nairobi City County in Kenya.

## **Value of the Research**

The current study intended to provide insights into knowledge about bargaining power of buyers on performance of registered freight and forwarding firms in Nairobi City County in Kenya. This study is beneficial to the management of freight and forwarding companies in Kenya. While noting that the importance of freight and forwarding firms in contributing to national development and growth of the economy.

## **Literature Review**

### ***Theoretical Foundation of the research***

Behavioral Theory, According to Scott & Davis (2015), they outline the three important aspects that this theory seeks to fill from the traditional economic theory. First, the actors are rationally bound i.e. limitation to information access and ability in processing it, that cannot be used for organizational maximization of the available information. Second, it aims at understanding how organization structures and practices were developed. Lastly it aims at understanding the best way of resolving conflicts due to wide variety of interests bought by the participants for goal achievement. This study utilizes this theory in determining how the buyers bargaining power such as offering discounts, switching cost and differential cost affect the freight forwarding performance in Kenyan firms that enables the organization to be dynamical for better performance.

## Empirical Literature Review

### Bargaining power of buyers on performance of freight and forwarding firms

Buyer power, as defined by Team FME (2013), is the degree to which consumers exert market influence via their direct demand for higher-quality products at lower costs. Legislation has supplemented consumer rights further, while accessible technology and a diverse range of businesses have resulted in an expansion in product and service offerings (Shah & Siddiqui, 2011). However, the internet's influence and changes in human social interaction have resulted in a rise in consumer loyalty drifting.

Thuong (2017) discovered that buyers had more negotiating power than sellers when comparing the small number of construction clients in the region to the large number of service providers available to deliver projects in the area, as seen in the chart below. Consumers may also be able to switch businesses at little or no cost, and there is a good possibility that customers will be able to postpone projects until they can get a cheaper price, according to Thuong (2017) investigated the connection between buyers' negotiating power and their competitive advantage using chi-square tests, correlations, and multiple regressions. Following the results of the chi-square tests, they discovered that the value with two degrees of freedom was 12.046 (chi-square = 2). We determined that there was no statistically significant relationship between the two variables since the p-value was greater than 0.05, and thus the null hypothesis was rejected and the alternative hypotheses accepted.

Competitors keep a firm's approach to maintaining low marginal costs and high fixed costs in check through reasonable discounting in check (Nir, 2009). This increases or strengthens the buyer's power, causing the customer to demand a lower price for a higher-quality product from industry manufacturers. By lowering the price of products, the industry earns less money, while increased demand for high-quality products results in a higher cost of production. In both instances, the producers suffer losses. Due to the fact that buyers' bargaining power is powerful when they purchase in bulk, producers find it difficult to switch customers due to the limited number of customers who purchase in bulk, and thus switching can decrease the industry's profits due to buyers' price sensitivity. (Porter, 2015).

As a result of customer pressure, market participants are forced to lower their prices while simultaneously raising the quality of their goods. Using nine areas of concern, Rachapila and Jansirisak (2013) demonstrated that this was the case by identifying them as follows: the number of buyers relative to sales; product differentiation; switching costs to use a different product; purchaser profit margins; purchasers' use of multiple sources; purchasers' threat of backward integration; purchasers' threat of forward integration; importance of product to the purchaser; and purchaser volume.

## Methodology

### Research Design

The researcher used descriptive research design. It ensures nothing is manipulated and it describes the correlation within Variables. It provides information about real occurring situations and not experiments. As indicated by Zikmund, (2013), an expressive research configuration incorporates a procedure of gathering data which includes watching and portraying the conduct of a subject without impacting it in any capacity to address questions concerning the ebb and flow status of the subjects under examination and that it utilizes a pre-arranged structure for investigation.

### Population of the study

The overall target population used in this study was all the 1245 freight forwarding firms in Kenya. Strictly, Nairobi City County has a total of 346 registered freight and forwarding companies. Hence, the target population of this study was all the 346 registered freight and forwarding firms in Nairobi City County. The study targeted the owners or managers based on the fact strategy is at top level and that they are the ones conversant with the day to day running of the organizations.

### Sample Population

Sampling is the process or technique used to choose a representative sample of the population for the research project (Ogula, 2008). This research used stratified random sampling to choose 20% of the total target respondents, resulting in a total of 69 potential respondents.

*Table 1: Sample Size*

Categories	Target population	Sample size (20%)
Owners or managers of freight forwarding firms	346	69
<b>Total</b>	<b>346</b>	<b>69</b>

**Source: (Researcher, 2022)**

### Data collection

The study collected data mostly via the use of a questionnaire. A questionnaire is a set of well selected and organised questions for use in survey research. Kazi and Khalid (2012) define a questionnaire as a formal document including professionally prepared questions intended to collect data from study participants in order to achieve research objectives.

### Test of Validity and Reliability

*Table 2: Reliability Test Results*

Scale	Cronbach's Alpha	Number of Items	Comment
Bargaining power of buyers	0.711	5	Reliable
Firm performance	0.794	5	Reliable

**Source: Field Data (2022)**

### Response Rate

The goal of the study was to figure out what percentage of owners or managers of freight forwarding companies responded. Out of the 69 questionnaires sent out to respondents, 59 were completely filled out, accounting for 85.51 percent of the total, with the remaining ten questionnaires accounting for 14.49 percent. Cooper and Schindler (2014) claim that a response rate of 60% or above is sufficient for data analysis. As a result, the response rate of 85.51 percent is acceptable for conducting the analysis for this study.

*Table 3: Sector of Interest*

Sector	Frequency	Percent
Clearing Local and Transit Cargo	36	61
Export by Sea	6	10.2
Warehousing and Transportation	13	22
Cargo Consolidation and Deconsolidation	4	6.8
<b>Total</b>	<b>59</b>	<b>100</b>

**Source: Research Data (2022)**

According to table 3, the largest percentage of freight forwarding businesses in Kenya, 61 percent, are interested in clearing local and transit cargo, 22 percent in warehousing and transportation, 10.2 percent in export by sea services, and 6.8% in cargo consolidation and deconsolidation.

#### Descriptive statistics

Based on a Likert- scale, the respondents indicated the extent to which they agreed or disagreed in line with various aspects of bargaining power of buyers. The range on the five-point Likert scale ranges from 1 which stands for strongly disagree and 5 indicating strongly disagree. Analysis of data was based on mean and standard deviations to represent the range of response dispersion as shown in Table 4.

*Table 4: Descriptive Results on Bargaining Power of Buyers*

Statement	Mean	Std Dev.
I believe that customers have an influence on the market through their direct demand for improved quality goods at low-cost prices	2.37	1.00
Implementations of legislation's have further complemented customer's rights towards price settings	2.75	0.98
I believe that the availability of technology has led to increase on the product and services demand to buyers	2.08	0.68
There is a tendency that most buyers advocate for lowering of prices for products	2.14	0.71
I believe that customers can raise or bargain down the price of a product depending on its quality through threats to the industry	2.02	0.94

**Source: Research Data (2022)**

The study's findings revealed that the majority of respondents agreed that customers have an influence on the market through their direct demand for improved quality goods at low-cost prices with a mean of 2.37 and standard deviation of 1 showing low variation in responses. The respondents of this study also agreed that implementations of legislation's have further complemented customer's rights towards price settings, mean = 2.75 and standard deviation = 0.98. The respondents agreed that the availability of technology has led to increase on the product and services demand to buyers, mean = 2.08 and standard deviation = 0.68. Furthermore, the findings of this study revealed that the respondents agreed that there is a tendency that most

buyers advocate for lowering of prices for products with a mean of 2.1 and SD of 0.71. The last statement sought to establish whether customers can raise or bargain down the price of a product depending on its quality through threats to the industry whereby majority of respondents agreed, mean =2.02 and standard deviation = 0.94. Based on the responses provided, it is clear that bargaining power of buyers has an effect on the firm's operations and strategy which influence its performance.

*Table 5: Descriptive Results on Performance of Registered Freight and Forwarding Firms*

Performance indicator	Mean	Std Dev.
Growth in market share	2.34	1.06
Decrease in staff turnover rate	2.41	1.10
Increase in the number of firm customers	2.42	1.12
Attainment of objectives of the firm	2.00	0.96
Improvement in profitability	2.12	0.77

#### **Source: Research Data (2022)**

The findings in table 5 shows that the respondents agreed that their firms had recorded growth in market share over a 5- year period, mean = 2.34 and standard deviation = 1.06. Similarly, majority of the participants of the study agreed that there was a decrease in staff turnover rate whereby the mean = 2.41 and standard deviation=1.1. With regard to statement on increase in the number of firm customers, a mean of 2.42 confirmed that majority of the respondents agreed and standard deviation of 1.12 demonstrates high spread in the responses presented. On whether the firm had attained its objectives, respondents agreed, mean = 2.0 and standard deviation = 0.96. The last statement sought to find out whether the firm had recorded an improvement in profitability over a 5-year period whereby a mean of 2.12 shows that majority of the respondents agreed.

*Table 6: Influence of bargaining power of buyers on performance of freight and forwarding firms*

Model summary					
R	R Square	Adjusted R Square	Std. Error of the Estimate		
.828	0.686	0.657	0.39707		
ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Regression	18.288	5	3.658	23.199	.000
Residual	8.356	53	0.158		
Total	26.644	58			
Coefficients <sup>a</sup>					

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	0.591	0.299		1.973	0.054
Bargaining Power of Buyers	0.296	0.111	0.238	2.672	0.01
<b>Dependent Variable: Firm Performance</b>					

**Source:** Field Data (2020)

- a. Predictors: (Constant), bargaining power of buyers
- b. Dependent Variable: Firm Performance

Table 6, illustrates that bargaining power of buyers, have a strong positive association with freight and forwarding firm performance in Nairobi City County, Kenya. This is demonstrated by a combined Pearson correlation of 0.828. According to the findings, an increase in buyer bargaining power will lead to improved performance of freight and forwarding firms in Nairobi City County, Kenya. According to the model's R-square, buyer bargaining power account for up to 68.6% of the variance in performance of freight and forwarding firms.

The significance value is 0.000 which is less than 0.05 thus the model is statistically significant in predicting how the factors buyer bargaining power influence performance of registered freight and forwarding firms in Nairobi City County in Kenya. The F critical at 5% level of significance was 2.389. Since F calculated (value = 23.199) is greater than the F critical, this confirms that the overall model was significant.

According to the regression equation established, taking all factors into account bargaining power of buyers constant at zero, performance of registered freight and forwarding firms in Nairobi City County in Kenya will be 0.591. Similarly, taking all factors into account and keeping the same at constant at zero, bargaining power of buyers positively and significantly influences performance of registered freight and forwarding firms ( $\beta=0.184$ , p-value= 0.001,  $p < 0.05$ ). This implies that a unit improvement in bargaining power of buyers would result to positive and significant change in performance of registered freight and forwarding firms in Nairobi City County. This result is in agreement with the study results of Rachapila and Jansirisak (2013) who showed that as a result of customer pressure, market participants are forced to lower their prices while simultaneously raising the quality of their goods which draws more customers thereby improving performance.

## Conclusion

The study also concludes that there is a significant relationship between bargaining power of buyers and performance of registered freight and forwarding firms. Suppliers hike its costs or decrease the nature of administrations or products which will prompt low productivity and that since suppliers are abundant in the market, they are chosen depending on their differentiated price.

## Recommendation

The research presents the following policy and practice recommendations based on the aforementioned results for inference purposes. Since, the study has established a significant relationship between bargaining power of

buyers, this study recommends that registered freight and forwarding firms should pay close attention to buyers as they are central towards enhancing performance and have an influence on the market through their direct demand for improved quality goods at low-cost prices

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