EFFECTS OF LIBERALIZATION OF THE TEXTBOOKS MARKET ON PROFITABILITY OF STATE-OWNED PUBLISHING HOUSES IN KENYA

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Management University of Africa

2013
DECLARATION

STUDENT'S DECLARATION

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SUPERVISOR'S DECLARATION

This project has been submitted for review with my approval as university student’s supervisor.

Signature:……………………………… Date…………………………………………………

Dr. Emmanuel Awuor

EXECUTIVE MBA PROGRAMME
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First I wish to thank God for the gift of life and for enabling me to go through this course for as the Bible says, I can do all things through Christ who gives me strength. Phil: 4:13.

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Special appreciation goes to the management of The Jomo Kenyatta Foundation (JKF) through the chief executive Mrs. Nancy Karimi for their support and grant of time off when attending classes, the management of Kenya Literature Bureau through the Managing Director Eve Obara for their support when collecting data, and to the entire staff of the two organizations for their cooperation.

Once again I say thank you and may God bless you all.
DEDICATION

This project is dedicated to my dear wife Joyce, my sons Alvin and Prince and my daughter Gloria who have supported me right from the onset of these studies and who prayed and encouraged me saying ‘you can make it’
ABSTRACT.

This study sought to establish how Liberalization of the Textbooks Market in Kenya affected Profitability of the two state owned publishing houses, namely The Jomo Kenyatta Foundation (JKF) and The Kenya Literature Bureau (KLB). The study looked at the areas of Costs of Production, Market share, Quality of books and the Pricing of textbooks as factors that affect Profitability of the two state corporations. These state corporations had for a long time enjoyed a government protection in the field of textbooks provision in Kenya. The onset of Structural Adjustment Programs by the World Bank in the 1980’s triggered the move towards liberalization of markets in the developing world and the textbook market was not an exception. When the liberalization was realized, the two corporations found themselves in a situation where they had to compete with other publishers for the same market. This meant an impact on their Profitability either negatively or positively. The (Gachathi, 1976) Report of the National Committee in Educational Objectives and Policies had made a number of recommendations that touched on the publishing industry in Kenya. The report indicated that at the time the publishing industry was dominated by foreign publishers who could not adequately meet the needs of Kenyans by publishing books with a cultural fit to the needs of the Kenyan education system and its schools. Their recommendation was that JKF is given the mandate of publishing and printing all school curriculum books which were then to be distributed to schools through the Kenya Schools Equipment Scheme (KSES).The study sought to establish any relationship between the consequences of liberalization of the textbook market and Profitability of the two state owned publishers, where Profitability is seen to be determined by four different variables of production costs, Market share, Quality of books and Pricing of Textbooks. The research sought the opinion of staff in three departments of the two publishers. These were sampled out from a predetermined population as is set out in the sample design outlined in chapter 3. Data was collected using questionnaires and there was a response rate of 72%. This data was analyzed using SPSS, a computer software that is used to analyze quantitative data and results reported as shown in chapters 4 and 5. The analyzed data showed that Cost of production and Market share largely contributed to the decline in profitability of the two State-owned publishing houses. Pricing was found to contribute to reduced profitability but to a lower extent while Book quality
did not contribute. A recommendation was then made that the two organizations need to work on increasing efficiency to lower their costs of production, endeavor to develop their existing markets and products while venturing into new ones and consider lowering the discounts given to customers.
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<td>Kenya Literature Bureau</td>
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<td>KSES</td>
<td>Kenya Schools Equipment Scheme</td>
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<td>PIMS</td>
<td>Profit Impact of Market Strategies</td>
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<td>BCG</td>
<td>Boston Consulting Group</td>
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<td>ROI</td>
<td>Return on Investment</td>
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CHAPTER ONE

INTRODUCTION

1.1 Background of Study

This chapter provides a background of the two state owned publishing houses in Kenya namely The Jomo Kenyatta Foundation (JKF) and The Kenya Literature Bureau (KLB) which are also among the largest publishers in Eastern Africa in terms of market share. Publishing is the process of production and dissemination of literature, music, or information — the activity of making information available to the general public (Article, 2013)

Since independence Kenya has seen many changes in the education sector. Such changes range from subsidized schooling through the Kenya Schools Equipment Scheme, cost sharing system, liberalization of textbooks market, changing of the education system to 8-4-4 and introduction of the Free Primary Education(FPE) and Free Day Secondary Learning (FDSL). For a long time in the history of Kenya, the State owned Publishers JKF and KLB enjoyed an almost monopoly of publishing Textbooks for consumption by the Secondary and Primary schools. Private publishers had an uphill task in penetrating the market where the state corporations were enjoying government protection. This became the genesis of the struggle to have this market liberalized and have all publishers play on a level ground. The idea of a National Book Policy was mooted by the Kenya Publishers Association (KPA) who then engaged the Government on negotiations.

International bodies such as the World Bank were also concerned and intervened on behalf of the private publishers. This culminated into a conference in 1993 in Mombasa where much ground was covered in the liberalization. A report from a group of consultants commissioned by the Ministry of Education in 1996 came to some stunning conclusions. The report showed that although the government had stopped the centralized purchase of textbooks, it was still controlling the production of textbooks. It was reported that the Kenya Literature Bureau (KLB) and JKF commanded over 90 percent of the primary school textbook market. Both of these publishing firms are State owned and are referred to as state corporations. The report also concluded that KLB controlled about 15 percent of the primary school and about 45 percent of the secondary school
textbook market. On the other hand JKF controls about 75 percent of the primary school market in two core subjects-Mathematics and English (Rotich, 2000). This shows that the school textbook market was skewed in their favor.

The government released a National Textbook Publishing Policy in September 1998. The policy outlines the roles of government and the publishing industry in the textbook publishing process. This led to a more pragmatic approach to the production, selection, procurement and supply of textbooks.

In 1998, the Director of KIE in-charge of the primary school syllabus argued that the centralization of production was necessary. This was to guarantee that books produced were of acceptable standards and relevant to the needs of the country. This line of argument was also put forward by the Director of Education in-charge of curriculum development in the Ministry. This was further emphasized by the Minister of Education in his foreword to the 1998 policy document. But, in order to produce textbooks of acceptable standards and quality, it is not necessary for government to be involved in the direct production of textbooks. Appropriate standards and relevance could be achieved through strict guidelines given to publishers on textbook publishing. The curriculum Centre could also play the role of vetting published textbooks on the basis of the guidelines and syllabus it produces, thus alleviating any fears of erosion of quality.

1.2 Statement of the Problem

The introduction of the National Textbook Publishing Policy (implemented by the beginning of 1999) was designed to encourage liberalization and commercialization of the textbook trade. It encouraged publishers to commission authors who would write books that have a competitive edge in the market and yet still fulfill the educational needs. It was also envisaged that this would lead to the development and production of high quality instructional materials for use in schools. The minister for education said in his foreword to the policy that school based decision making on textbook selection was important and hoped the policy will encourage procurement and supply of relevant and high quality books (Muita, 1998).

The Government sought to bring a level playing ground in the publishing industry. This would allow the private sector to freely participate in the provision of educational and learning materials. The Government would then through the Kenya Institute of Education (KIE), play the role of a
regulator. Since the Government has a responsibility of ensuring quality education to the children of Kenya, there was a need for regulation and vetting of book products from various publishers. This would then ensure that the learning materials were up to standard and compared well with other countries’ while keeping away unscrupulous publishers whose interest may have been profits only.

The new Textbook Policy was seen to have a direct impact on the two state owned publishing houses namely The Jomo Kenyatta Foundation and Kenya Literature Bureau. The new environment meant increased competition which could have an effect on their market share. It also meant that KIE with whom they had worked in partnership was to be their regulator. This was to have an impact on the pricing and therefore profitability. The capacity of producing quality textbooks would also be put to test. This study seeks to investigate the effects of this liberalization policy to the Profitability of the two state owned publishing houses.

1.2.1 Profile of state owned publishing firms

The Jomo Kenyatta Foundation was incorporated under the Companies Act, Cap. 486, Laws of Kenya as a company limited by guarantee and having no share capital, on 2nd March 1966. The initial working capital was sourced from various donors. By 1972, the Foundation had fully repaid the loans and has since remained a self-financing and self-reliant institution. The Jomo Kenyatta Foundation was established in the wake of Kenya’s determination to take control of the country’s educational publishing system and thus prevent huge capital flight. The mandate given to the JKF at that point in time was wide and even extended to the East African Community. JKF was able to expend its profits for the purposes of advancement of education by awarding scholarships to bright but needy students in public secondary schools. This was the beginning of the scholarships program, which is the hallmark of JKF’s special and unique contribution to national goals and ideals (Foundation, 2007).

Kenya Literature Bureau originated from the East African Literature Bureau, which was established in 1947 by the British High Commission. It became a department in the Ministry of Education in 1977 when the East African Community collapsed and was later transformed into a

As a state corporation operating under a board of management, the provisions of the State Corporations Act, Cap 466, also govern the Kenya Literature Bureau. This Act requires State corporations to enhance efficiency in operations; develop and implement effective systems of financial and administrative management; observe proper procurement procedures; implement systems of risk management; and develop and implement appropriate staff development programs.

The Bureau has published more than 900 titles in a wide range of areas for the local and international markets (Bureau, 2013).

1.3 Objective of the Study

The objective of this research is to determine the effects of liberalization of textbooks on the Profitability of State owned-Publishers in Kenya.

1.3.1 Research Specific Objectives

i. To ascertain the effect of costs of production on the Profitability of state owned Publishing houses in Kenya
ii. To determine the contribution of pricing of textbooks on the Profitability of state owned publishing houses in Kenya
iii. To examine the effect of quality of textbooks on Profitability of state owned publishing houses in Kenya
iv. To establish the impact of market share on the Profitability of State-owned publishing houses in Kenya

1.4 Research Questions

i. How has costs of production of textbooks affected the Profitability of state owned publishing houses in Kenya?
ii. What is the contribution of pricing of textbooks to the Profitability of state owned publishing houses in Kenya?
iii. How has quality of textbooks affected the Profitability of the state owned publishing houses in Kenya?

iv. To what extent has market share determined the Profitability of state owned publishing houses in Kenya?

1.5 Justification

The market share of any organization including Publishers is determined mainly by the quality of the firm’s products. In a competitive market like the publishing industry, quality is very central because it will also determine whether the products will pass the vetting stage in the first place. Similarly, cost of production and pricing structure informs the final overall Profitability of the firm. Understanding whether liberalization of textbook market affected the Profitability of JKF and KLB in these main areas will be very important as it will help them to device ways of mitigating against further decline in Profitability.

This study may also be used by the ministry of education which is the parent ministry of both JKF and KLB in determining what regulations to tighten and which to loosen in order to allow the two firms to compete fairly with other publishers. Some government regulations may be seen to work against these state corporations hence curtailing the expansion of their market share.

The respective Management of JKF and KLB would also be very much interested in knowing where and how they can improve on the operations of their firms. The interest of these Management is to return the organization to the former glory before liberalization by overcoming competition challenges and by having as many of their titles as possible approved by KIE. It would also help them explore the possibilities of venturing into new markets and products, and how to overcome the challenges associated with such ventures.

The research can also be an important reference by other researchers, students and consultants especially in education and publishing fields, who may use it for further research.
1.6 Scope

As there are only two State-owned publishing houses, the study focused on the operations of the two within the last two decades of liberalization comparing it with their operations there before. The research concentrated on three departments of these organizations, namely Publishing, Finance and Marketing who provided the necessary information on the Profitability of the firms. The study was carried out in the months of February 2013 to May 2013.

1.7 Limitations

One of the limitations expected while carrying out this study are availability of the respondents in both organizations. Another limitation is the fact that many years have passed since the liberalization meaning that a lot of information from either the government or the two organizations may not be accessible and some respondents may decline giving information especially on production costs and pricing fearing that it could be used by the competition.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature on how liberalization of the textbooks industry in Kenya, impacted on the State owned publishers. The study will seek to establish how the liberalization variable affected the profitability, pricing, market share, purchasing trends of customers and quality of books from these publishers.

2.2 Theoretical Literature Review

2.2.1 Liberalization

Liberalization is defined as the removal or reduction of restrictions or barriers on the free exchange of goods between nations. This includes the removal or reduction of both tariff (duties and surcharges) and non-tariff obstacles (like licensing rules, quotas and other requirements). The easing or eradication of these restrictions is often referred to as promoting “free trade.” (Investopedia, 2012). For the last 20 years, Liberalization has been carried out in Kenya in various sectors of the economy to allow for free movement of goods and level playing field in the industries. This has led to the emergence of new organizations and the entry of foreign companies into the local market. The book industry was not an exception.

As indicated earlier, the two firms JKF and KLB dominated the textbooks market for a long while in Kenya. The Book Policy introduced in the 90’s to open up the book market to private investors, saw the entry of new investors from outside Kenya and expansion of those that existed earlier but operating on a lower scale. This meant that the two organizations needed to rethink their strategies on maintaining quality products, Pricing, Costs of production and fighting to retain their market share. It also meant a higher level of competition among the existing publishers and the new entrants into the market.
2.2.2 The Role Played by State Publishers

The Kenya Institute of Education (KIE) specializes in educational research and curriculum development for all levels of education and training below the university.

KIE also produces learning resources such as books, manuals, video and audio cassettes, CDs, diskettes and charts. The institute conducts in-service training of teachers and trainers on new curricula and trends in education and training. KIE has carried this mandate since independence. Publishers follow the curriculum so developed to prepare manuscripts for publishing.

On the other hand, the two state owned publishers are tasked with publishing of textbooks for use in Primary, Secondary and even Tertiary levels including Universities. Initially, there was no much competition from other publishers but following liberalization, the competition is intense. Kenya literature bureau remits dividends to the Government of Kenya from its profits. The Jomo Kenyatta Foundation was established to publish books and give scholarships to needy but bright students in secondary schools. For this reason, JKF is exempted from payment of Income Tax.

2.2.3 The Need for Liberalization

In 1983 things took a completely different direction, when the government abruptly changed the structure of education, introducing the 8-4-4 system of education. This sudden change of policy rendered nearly all the textbooks in the country irrelevant. Survival instincts and business sense dictated that the publishers repackage the old titles between new covers, a move that did not go down well with the government. This resulted in the Ministry of Education mandating the KIE to write books. The institution organized writing workshops, which basically involved bringing together teachers with no prior training or experience in writing, with the instruction to `produce a manuscript’ for a certain subject within a stipulated time. The manuscripts so produced were passed on to state publishing houses with the instruction to `produce a book’, and this in record time. These books were ultimately to become the official textbooks for schools. Books from private publishers were relegated to supplementary material or teacher reference. As a result, publishing in Kenya as a business lost its attraction. Many publishers were forced to lay off staff or close down altogether, a scenario created by the state monopoly (Muita, 1998).
2.2.4 Effects of Costs of Production on Profitability of the State-Owned Publishers

Cost of production refers to the total sum of money needed for the production of a particular quantity of output. As defined by Gulhrie and Wallace, “In Economics, cost of production features a special meaning. It is all about the payments or expenditures essential to get the factors of production of land, labor, capital and management needed to produce a commodity. It signifies the money costs which are to be incurred for acquisition of the factors of production.” (Gulhrie, 2013). Production Costs are the costs which should be essentially received by resource owners so as to presume that they will continue to supply them in a specific period of time.” (Cambell, 2008)

Production costs are the expenses necessary to maintain a plant, processing line or equipment in production. In a healthy company the difference between income (from sales and other sources) and production costs indicates the gross profit. This means that the economic fate of a company is linked to the income (e.g., goods sold on the market and price obtained) and the production costs of the goods sold. Whereas income, particularly income from sales, is linked to the marketing sector of a company, production costs are closely related to the technical sector.

Production costs have two opposite characteristics sometimes not well understood in developing countries. The first is that to produce goods one must expend; this means produce at a cost. The second characteristic is that costs should be kept as low as possible and eliminated when unnecessary. This does not mean cutting or eliminating costs indiscriminately. For instance, there is no sense in not having a proper equipment maintenance program merely to avoid maintenance costs. It would be more advisable to have an acceptable maintenance scheme which would, perhaps, eliminate 80-90% of breakdown risks. Likewise, purchasing material of marginal quality to reduce raw material costs is not usually recommendable. The right approach would be to have a proper purchasing scheme in accordance with the market requirements and costs.

Another aspect should be examined when analyzing the importance given to production costs in developing countries: for a given cost structure, a variation in the sale price will have an immediate impact on the gross profit because the gross profit is the balance between income (mainly from sales) and production costs. Therefore, sale price increases or variations are very often perceived
as the most important variable (together with the raw material cost) particularly when considerable
price variations exist. (Fisheries, 2013)

Costs of production have also been defined as ‘the input expenses that one incurs in developing a
particular product or service to the point where it is ready for sale. These costs form a major
percentage of the organization expenditure and cannot be ignored when coming up with the price
of the product. Among other factors, low-cost production is a strategy for many organizations to
sustain a competitive advantage’ (Peter, 2004).

Cost leadership is one major strategy that different organizations focus on to be able to have
competitive advantage. To get the final price right, an organization needs to get it right from the
start. Organizations that do not manage to keep their costs low may also have to contend with
small marginal profits because of the other market forces.

2.2.5 Effects of Pricing of Textbooks on Profitability of State-Owned Publishers

A price is the amount of money something is bought or sold for. Any product or service will have
a price and the seller may have a price that is different from what the buyer thinks it is worth. A
product will have a sales value on it, which is generally the price (or the cost) of producing that
product, including a profit margin for the producer.

The main objective of every business is to make a profit. A number of factors that affect the
profitability of the business come into play. These include the resources in the business, such as
employees, management, location, competition, market demand and the cost of producing the
products. In our free enterprise system you have the right to establish whatever price you want for
your products. That price may be determined to a great extent by the market demand and by your
competitors. (StartRunGrow, 2013)

Setting the right price is a crucial step toward achieving that profit. Retailers are in business to
make a profit, but figuring out what and how to price products may not come easily. Before we can
determine which retail pricing strategy to use in setting the right price, we must know the costs
associated with the products. Two key elements in factoring product cost is the cost of goods and
the amount of operating expense. The cost of goods includes the amount paid for the product, plus
any shipping or handling expenses. The cost of operating the business, or operating expense, includes overhead, payroll, marketing and office supplies. Regardless of the pricing strategy used, the retail price of the products should more than cover the cost of obtaining the goods plus the expenses related to operating the business. A firm simply cannot succeed in business if they continue to sell their products below cost. (Waters, 2013)

This means that as much as an organization may want to determine a particular price that would guarantee maximum profits, such a price will be dictated to some extent by market forces which the business has no control over. The organization then has to adopt the most suitable pricing strategy or method.

The easiest definition of pricing then is that it is the method adopted by the business firm to set its selling price. Pricing decisions that integrate the firm’s costs with marketing strategy, business conditions, competition, demand, product variables, channels of distribution, and general resources can determine the success or failure of a business (Paul, 2007). If the price of a product is set too high, it doesn’t matter whether the product is unique and consumers like it; they won’t buy it. The price has to be right. Product differentiation is critical, especially if you want to justify a high price (Keefer, 2012).

Following liberalization and the entry of other publishers into the market, JFK and KLB had to balance between satisfying the customers with affordable prices and remaining profitable.

2.2.6 Effects of Quality of Textbooks on Profitability of State-Owned Publishers

Quality increases profitability. When employees are engaged in a work environment in which teamwork is emphasized and where quality products are the goal, the work environment flows more smoothly than one in which quality is an afterthought. (Morgan, 2013)

As seen from the discussion on Quality Costs and Six Sigma, it is not difficult to realize that poor quality level costs a lot. However, can good quality really bring profit? Studies by the National Institute of Standards and Technology (NIST), universities, and the U.S. General Accounting Office (GAO) found that companies adopting quality management practices experienced an overall improvement in employee relations, higher productivity, greater customer satisfaction, increased
market share, and improved profitability. In addition, a recent NIST study that tracks a hypothetical stock investment in Malcolm Baldrige National Quality Award (MBNQA) winners shows that these companies soundly outperformed the Standard & Poor’s 500 (S&P 500) for the seventh straight year in a row. (Process Quality Associates Inc)

Research about the critical drivers of new product success is perhaps one of the thorniest issues confronting academic research in the field. Among them, product quality is considered a crucial element to obtain a competitive advantage. However, empirical evidence suggests low returns on product quality investments in new products, and consequent manager claims for an explanation of whether quality investments are fruitful for the firm. Researchers disagree about the perverse or positive effects that the switching costs associated with the product quality have on the short- and long-term Profitability of the firm (Molina-Castillo, 2011).

Quality of a product is very important to the producer as well as to the buyer. Quality determines whether a customer will come again or not. It is therefore imperative to keep the quality standard high and maintain it. In a situation of little or no competition, quality may be compromised as the customers have no variety from which to choose. The world over, quality has become the emphasis of many manufacturers who are embracing such quality standards such as ISO.

In a competitive market where an organization has no definite control of the market prices, quality can be compromised through use of substandard raw materials in an effort to keep the costs of production low and thus low customer prices. The pricing strategy of an organization has to be in such a way that quality is not compromised because this would also have the multiple effect of losing customers. This is where such organization have to keep researching in order to use better technology for better quality at reduced costs.

2.2.7 Effects of Market Share on Profitability of State-Owned Publishers

“Market share is probably the easiest and most often used point of comparison between competing products. It makes sense: If something has a large share of the market, it’s probably doing well. It is now widely recognized that one of the main determinants of business profitability is market share. Under most circumstances, enterprises that have achieved a high share of the markets they serve are considerably more profitable than their smaller-share rivals. This connection between market share and profitability has been recognized by corporate executives and consultants, and it
is clearly demonstrated in the results of a project undertaken by the Marketing Science Institute on the Profit Impact of Market Strategies (PIMS). The PIMS project, on which we have been working since late 1971, is aimed at identifying and measuring the major determinants of return on investment (ROI) in individual businesses. Phase II of the PIMS project, completed in late 1973, reveals 37 key profit influences, of which one of the most important is market share. There is no doubt that market share and return on investment are strongly related.

While the PIMS data base is the most extensive and detailed source of information on the profit/market-share relationship, there is additional confirming evidence of its existence. For instance, companies enjoying strong competitive positions in their primary product markets tend to be highly profitable. Consider, for example, such major companies as IBM, Gillette, Eastman Kodak, and Xerox, as well as smaller, more specialized corporations like Dr. Scholl (foot care products) and Hartz Mountain (pet foods and accessories).

Granted that high rates of return usually accompany high market share, it is useful to explore the relationship further. Why is market share profitable? What are the observed differences between low- and high-share businesses? Does the notion vary from industry to industry? And, what does the profitability/market-share relationship imply for strategic planning? This article attempts to provide partial answers to these questions by presenting evidence on the nature, importance, and implications of the links between market share and profit performance. There are three main reasons why a large market share translates to higher profitability. These are:

**Economies of scale:** The most obvious rationale for the high rate of return enjoyed by large-share businesses is that they have achieved economies of scale in procurement, manufacturing, marketing, and other cost components. A business with a 40% share of a given market is simply twice as big as one with 20% of the same market, and it will attain, to a much greater degree, more efficient methods of operation within a particular type of technology.

**Experience curve:** Closely related to this explanation is the so-called “experience curve” phenomenon widely publicized by the Boston Consulting Group. According to BCG, total unit costs of producing and distributing a product tend to decline by a more or less constant
percentage with each doubling of a company’s cumulative output. Since, in a given time period, businesses with large market shares generally also have larger cumulative sales than their smaller competitors, they would be expected to have lower costs and correspondingly higher profits.

**Market power:** Many economists, especially among those involved in antitrust work, believe that economies of scale are of relatively little importance in most industries. These economists argue that if large-scale businesses earn higher profits than their smaller competitors, it is a result of their greater market power: their size permits them to bargain more effectively, “administer” prices, and, in the end, realize significantly higher prices for a particular product. (Robert D. Buzzell, 1975)

Market share is mainly looked at in terms of Sales revenue or Sales volume. An organization having a large market share is seen to be performing well. If one firm can open up a big market share advantage, the cost advantages of share in some activities allow the firm to incur added costs elsewhere and still maintain cost leadership, or share reduces cost of differentiation relative to competitors (Porter, 1998). Though the two publishing houses have retained some of the flagship titles such as Primary Mathematics for JKF and Secondary Mathematics for KLB, the competition has eaten into the market that was formerly known to be theirs. New strategies in marketing and publishing may be necessary to recapture the lost market and even expand it further.

### 2.3 Critique of the Existing Literature Relevant to the Study

Much has been researched on this subject. However there are many factors that are left out that concern Profitability of state owned publishers especially after the liberalization of Textbooks in Kenya. The delinking of KIE and the state owned publishing houses meant that these publishers had to compete with other private organizations and even multinationals.

(Githiaka, 2011) identified Marketing strategies, Competition, Product quality and Motivation of staff as some of the factors affecting Performance of publishers in Kenya. However, publishers in Kenya have different orientation and uniqueness. Some of these orientations are that some are private ventures, some multinationals while others like JKF and KLB are state-owned. This means that a general conclusion may not be drawn for them.
Other factors that may be affecting Profitability of the state owned publishers may be the reading culture of Africans. One researcher said that “ignorance is the primary weapon of containment as the best way to hide something from Black people is to put it in a book”. It is said Africans don’t read (Kupoluyi, 2011).

Researchers have also not considered the fast changing technology. Multinational publishers are quick to keep up with technology. Local publishers are faced with various constraints among them financial, that may cause them to lag behind hence lose more market share.

2.4 Summary

With the above in mind, it is clear that the two state owned publishers face several challenges that in turn affect their Profitability. The researcher in this study sought to find out to what extent such factors as Cost of Production, Quality of Books, Pricing of the Textbooks and Market share affect the Profitability of the two publishers. The study looked at previous studies done on this subject and drew out the gaps that needed to be closed.

2.5 Research Gaps

Gaps were identified in previous research concerning Profitability of publishers. As indicated above and as seen from the theoretical review, researchers have not done much in the area of reading culture especially in Kenya and Africa at large. Reading culture could play a big role in determining the demand for books from publishers.

There is also the ever-changing technology. Considering the four independent variables researched on here, technology plays a major role in the extent to which their impact could be felt. A good example is the cost of production. By embracing modern computer aided production, costs of labor can be drastically reduced. Quality is also enhanced through use of technology. Research has also not been done on whether it is necessary for the Government to continue engaging in publishing business through these organizations. Such business puts the Government in competition with private ventures, a situation that may compromise its role of being a regulator. Future research will need to be carried out on these areas.
2.6 Conceptual Framework

The conceptual framework showing the probable relationship between the independent and the dependent variables is shown in figure 1 below.

**Figure 1: Conceptual Framework**

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Influencing Variables</th>
<th>Dependent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Production of Textbooks</td>
<td></td>
<td>Profitability of Government Owned Publishers</td>
</tr>
<tr>
<td>Pricing of Textbooks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality of Books</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market share of the Textbooks from JKF and KLB</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.6.1 Cost of Production

High costs of production affect the price of the final product making it unattractive to the customer.

2.6.2 Product Quality

As has been said before, quality of the product is very central in determining sales of the product. Any producer cannot afford to ignore quality and must always focus resources into maintaining high quality.
2.6.3 Pricing

The pricing strategy adopted by an organization will determine the prices of the products. Care needs to be taken to make sure that the prices arrived at are competitive enough to beat the competition.

2.6.4 Market Share

As indicated before, market share is calculated on the volume of units sold or the turnover. An organization needs to maintain a high market share to make any meaningful impact.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This chapter considers several aspects which are Research design, Target population, Sample design, Instruments of research and the Validity of these instruments.

3.2 Research Design

The design used on this study was descriptive. This enabled the collection of data faster and inexpensively. A descriptive survey is said to be probably the best method available to researchers who are interested in collecting original data for the purpose of describing a population that is large, (Mugenda, 1999). Descriptive research is a process of collecting data in order to test a hypothesis or answer questions concerning the current status of the subject of the study.

3.3 Target Population

The research focused on the Profitability of the two state owned publishers, JKF and KLB. The target population was the staff of the two organizations working in three departments namely, Publishing, Marketing and Finance. This was mainly because these are the people who deal with the mentioned variables on a day to day basis. The publishing department originate the books hence determine the quality, Marketing department play a great role in pricing decisions and gather information on market share while the Finance department is very key in the determination of the Cost of production.
3.4 Sample Design

The researcher used a stratified random sampling method to select a sample of the population of staff in the targeted departments. The sample size was determined through the sample size calculator (System, 1982) with a confidence interval of 10 and a confidence level of 95%.

Table 1: Sample Design Diagram

<table>
<thead>
<tr>
<th>Firm</th>
<th>Publishing</th>
<th>Marketing</th>
<th>Finance</th>
<th>Population 100%</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>JKF</td>
<td>24</td>
<td>27</td>
<td>16</td>
<td>67</td>
<td>30</td>
</tr>
<tr>
<td>KLB</td>
<td>22</td>
<td>15</td>
<td>17</td>
<td>54</td>
<td>24</td>
</tr>
<tr>
<td>Total</td>
<td>46</td>
<td>42</td>
<td>33</td>
<td>121</td>
<td>54</td>
</tr>
</tbody>
</table>

Questionnaires were distributed to the respondents in May 2013.

3.5 Instruments

Questionnaires were used as the main tool for data collection. This is due to the nature of data that was to be collected, availability of time and the objectives of the research. According to (Saunders, 2007), descriptive research, such as undertaken using attitude and opinion questionnaires, will enable you to identify and describe the variability in different phenomena. Apart from the variable, Cost of production, which is quantitative, the other variables namely Quality of Books, Pricing and Market share are to do with respondents’ views, perceptions, attitudes and opinions on the same.

3.5.1 Type of Questions in the Questionnaire

The questionnaire contained multiple choice questions and those of scale which focused on respondents’ perceptions and opinions on the independent variables’ impact on Profitability. Open ended questions were also asked on the dependent variable, Profitability, of the two state owned publishing houses to allow the respondents express their true perceptions.
3.5.2 Validity and Reliability of the Instruments

Key indicators of the quality of a measuring instrument are the reliability and validity of the measures. The process of developing and validating an instrument is in large part focused on reducing error in the measurement process. Reliability estimates evaluate the stability of measures, internal consistency of measurement instruments, and interrater reliability of instrument scores. Validity is the extent to which the interpretations of the results of a test are warranted, which depends on the particular use the test is intended to serve. The responsiveness of the measure to change is of interest in many of the applications in health care where improvement in outcomes as a result of treatment is a primary goal of research. Several issues may affect the accuracy of data collected, such as those related to self-report and secondary data sources. Self-report of patients or subjects is required for many of the measurements conducted in health care, but self-reports of behavior are particularly subject to problems with social desirability biases. Data that were originally gathered for a different purpose are often used to answer a research question, which can affect the applicability to the study at hand (Kimberlin, 2008). A pilot survey was carried out to determine the validity and reliability of the questionnaire. This was done on all the independent and dependent variables.

3.6 Data Analysis

The primary data collected from respondents was analyzed by descriptive statistics. Statistical package for Social Sciences (SPSS), computer software, was used to analyze quantitative data. The raw data was systematically organized to facilitate the analysis. To allow quantitative analysis, the responses for closed ended questions were assigned numerical values using Likert scale.
CHAPTER FOUR

DATA ANALYSIS AND RESEARCH FINDINGS

4.1 Introduction
This chapter presents the analysis and the findings from the primary data that was collected from respondents using structured questionnaires. Some of the questionnaires were self-administered and the response rate was 72%. There were 39 responses out of the 54 questionnaires sent out, 50% being from JKF and 22% from KLB. The data was analyzed to identify, describe and explore the effects of cost of production, pricing, quality and Market Share, on profitability of the two publishing firms.

According to these observations 51% of the respondents agreed that the production cost was high hence there is a need to find alternative ways to cut down on overhead costs that would in turn reduce the overall production cost.

4.2 Departmental Distribution
The respondents were from three main departments of the two publishing firms namely Finance, Publishing and Marketing. 31% came from Finance department, 44% from Publishing and 25% from Sales and Marketing departments respectively.

Table 2 Departmental Distribution

<table>
<thead>
<tr>
<th>No</th>
<th>Department</th>
<th>Frequency</th>
<th>Valid Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Finance</td>
<td>12</td>
<td>31</td>
</tr>
<tr>
<td>2</td>
<td>Publishing</td>
<td>17</td>
<td>44</td>
</tr>
<tr>
<td>3</td>
<td>Sales and Marketing</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td></td>
<td>39</td>
<td>100</td>
</tr>
</tbody>
</table>
4.3 Demographic Distribution
The respondents cut across gender. There were 27 male respondents representing 69 percent, and 12 female respondents representing 31 percent across the two publishing firms.

4.4 Effect of Cost of Production on Profitability
The effects of cost of production on profitability were measured against a likert scale. The scale had Very high, High, Moderate, Low and Very low. There was no respondent who indicated that the costs were very low. A majority of the respondents (97%) believe that cost of production has had an effect on profitability in their organization. Most of them also believe that the costs of production are high or very high at a combined percentage of 57.

Figure 2: Production costs percentage

A larger percentage, (77%) of the respondents, agree that production costs affect profitability by shrinking the profit margin. High production costs were mainly attributed to key parameters used to cost books especially raw materials, and labor.
Table 3 How production costs have affected profitability

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Valid Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>High cost leads to high prices, low sales hence reduced profitability</td>
<td>30</td>
<td>76.9</td>
</tr>
<tr>
<td>No, because the cost is about only a third or below</td>
<td>1</td>
<td>2.6</td>
</tr>
<tr>
<td>Outsourcing of printing leads to piracy</td>
<td>1</td>
<td>2.6</td>
</tr>
<tr>
<td>Outsourced production is more expensive</td>
<td>1</td>
<td>2.6</td>
</tr>
<tr>
<td>Others</td>
<td>6</td>
<td>15.4</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>100</td>
</tr>
</tbody>
</table>

4.5 Effects of Quality of Books on Profitability.

Five questions were posed to the respondents as regards quality and measured against the likert scale with 5-Strongly disagree, 4-Agree, 3-Not sure, 2-Disagree and 1-Strongly disagree. About 51 percent of the respondents agreed that the quality of the book determines the readability as shown in figure 3 below. No respondent strongly disagreed or was not sure.
Respondents from each publisher believe that their books quality surpasses competitors’ and so quality has not been an issue in determining demand for its products. When asked whether the quality of their books was lower than that of competition, the majority responded in the contrary. This is shown in figure 4 below.
The respondents also believe that the quality of their books has not contributed to low sales hence does not affect profitability as shown in table 4 below.

**Table 4: Low quality of our books has led to low sales**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Valid Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly disagree</td>
<td>19</td>
<td>48.7</td>
</tr>
<tr>
<td>Disagree</td>
<td>8</td>
<td>20.5</td>
</tr>
<tr>
<td>Not sure</td>
<td>4</td>
<td>10.3</td>
</tr>
<tr>
<td>Agree</td>
<td>5</td>
<td>12.8</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>3</td>
<td>7.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
The majority of the respondents supported the relevance of their titles to the curriculum with 29.7% agreeing and 64.9% strongly agreeing. This left only a paltry 5.4% either disagreeing or not sure.

Table 5 Our books are relevant to the curriculum

<table>
<thead>
<tr>
<th>Opinion</th>
<th>Frequency</th>
<th>Valid Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>1</td>
<td>2.7</td>
</tr>
<tr>
<td>Not sure</td>
<td>1</td>
<td>2.7</td>
</tr>
<tr>
<td>Agree</td>
<td>11</td>
<td>29.7</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>24</td>
<td>64.9</td>
</tr>
<tr>
<td>Total</td>
<td>37</td>
<td>100</td>
</tr>
</tbody>
</table>

Opinion in regard to whether the content was easily selling regardless of the cover quality showed that there was almost an equal division of opinion. 44.6% disagreed while 51.3% agreed. 5.1% were not sure.
4.6 Effects of Pricing on Profitability
Most of the respondents were comfortable with the pricing in their organizations as shown in the following two tables. The first question was to seek the opinion of the respondents on whether the prices of their titles were too low. 12.8% strongly disagreed while 48.7% disagreed. This left 30.8% agreeing and 7.7% of the respondents that were not sure. 57.9% either disagreed or strongly disagreed with the statement that ‘our pricing strategy is inadequate’. 28.9% agreed with this statement while only 13.2 were not sure.
Figure 6 Our Pricing Strategy is inadequate

Asked whether prices should be set by a regulator, in this case The Kenya Institute of Curriculum Development (KICD) or left to the market forces, most of the respondents favored liberalization. 78.9% were in favor of market forces while 21.1% were for price regulation.

Figure 7 Price regulation vs. Market forces

- **Market forces**: 78.9%
- **Regulation**: 21.1%
A majority of the respondents felt that the discounts given by the two firms are high. Asked what discount would be ideal for the book industry a larger percentage of 43.6% advocated for a discount rate of 30% while 25.6% of the respondents felt 25% discount was adequate. The rest advocated for discounts less than 25%.

**Figure 8: Ideal percentage discount**

![Discount preference chart]

**4.7 Effect of Market Share on Profitability**

Most of the respondents agreed that a large market share is definitely necessary for the profitability of the publishing houses. The two firms should focus on expanding their market share to regain their position in the industry. This can be done through various ways as will be seen in chapter 5. 86.9% of the respondents either agreed or strongly agreed that a large market share is of essence as per figure 9 below.
Another observation was that the two organisations have lost some of their books market to competitors. 36.8% of the respondents indicated that they strongly agree with this statement, 31.6% agreed while the rest 31.6% either strongly disagreed, disagreed or were not sure. This is represented in the following table 7 and figure 8. However, most respondents, 94.9% were optimistic that their organisations still had room for expanding their market share through aggressive marketing, product diversification, market diversification and expansion, embracing of technology (E-publishing) and cost-management (especially through in-house printing).
Figure 10: The organization has lost some title's market to substitutes

The last question to the respondents was whether in their opinion there was prospects of growing the market share again to what it was for the two publishers. Most respondents, 94% were very optimistic that their organizations can regain the lost market through Market development and Product development.

Figure 11: There are prospects of growing the market share
CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
The main objective of this study as stipulated in chapter one was to determine the effects of liberalization of textbooks on the Profitability of State owned-Publishers in Kenya. This chapter is a summary of the findings. It also gives the conclusions and recommendations for increasing profitability of the two publishing houses, namely The Jomo Kenyatta Foundation and The Kenya Literature Bureau.

5.2 Summary of the Findings
The recommendations show the areas where these publishing firms need to concentrate their efforts and what they should avoid, for greater profitability in the face of liberalization and increased market competition.

5.2.1 Effect of Production Costs on Profitability
From the findings of the study, high cost of production was found to be a major determinant of profitability. The majority of those who responded were in agreement that the costs of production for the two firms was very high, a situation that has led to reduced margins. The cost of raw materials like paper and ink was very high especially because most of it is imported. Another factor that contributes to high costs is labour.

5.2.2 Effects of Pricing of Textbooks on Profitability of State-Owned Publishers
The majority of the respondents were comfortable with the prices set by their respective organizations. The respondents also believed that the pricing strategies of their organizations were adequate and competitive enough for the market. As for whether the prices should be regulated by Kenya Institute of Curriculum Development (KICD) or determined by the market forces, the majority of the respondents were in favour of market forces. This meant that KICD should only concentrate on curriculum development and regulation of quality. However, the study showed that
the discounts given to customers are sometimes very high. According to the majority of the respondents, discount should be capped at 30% if reasonable profitability is to be realized.

5.24 Effects of Quality of Textbooks on Profitability of State-Owned Publishers
The respondents were largely unanimous that a book quality determines its readability. However the quality of the content is what was most important to many. As if to confirm the English idiom ‘don’t judge a book by its cover’, opinion was almost equally divided as to whether the quality of the book cover affected readability. This therefore meant that content rather than book cover was more important. The study found out that the majority of the people had confidence with the quality of their books and they felt that these books were very competitive in regard to quality.

The respondents also strongly believe that their books are very relevant to the curriculum as set by KICD.

5.2.5 Effects of Market Share on Profitability of State-Owned Publishers
The study showed that a large market share is of utmost importance for profitability to be achieved and sustained. It also showed that JKF and KLB have lost the market share of some titles to the competition over the last few years. However, most of the respondents were very optimistic that the lost market share can be regained through employing several measures as per recommendations below

5.3 Conclusion
The study concluded that three of the four factors, namely; Cost of production, Pricing and Market share affected the profitability of the two State-owned publishing firms albeit in varied degrees. The fourth factor, Quality of the textbooks was not found to affect profitability.

Cost of Production was found to be contributing to a large extent to the decline in profitability. This was attributed mainly to the high cost of raw materials and labour among other overheads.

Market share was also found to have declined with liberalization and increased competition from other local and international publishing firms. The two publishing firms have lost a number of titles’ market to the competition. Large market share needs to be sustained and possibly improved to maintain a good profitability.
Though pricing was not found to be a factor in the profitability, the study found that high discounts are not necessary and recommended a sustainable discount of 30%.

The study further concluded that Quality of the textbooks for the two firms was good and therefore not a factor affecting the profitability. However, the cover quality needs to be constantly improved to keep up with market trends.

5.4 Recommendations
This study recommended that there is need for reduction in production costs. This would ensure good gross margins for the textbooks. One of the measures suggested for cost reduction was printing in-house rather than outsourcing. When outsourcing, publishers have no influence over the printers’ sourcing of raw materials. There are also high risks of copyright infringement because the publishing firms have no control of the press. It is also recommended that the publishers look into their value chain with a view to reduce the middlemen in the acquisition of raw materials.

Another recommendation is concerning market share. There is a need for the publishers to grow their market both locally and in the region. This can be done through various means like aggressive marketing, product diversification, market diversification and embracing new technology like e-marketing and e-publishing.

Concerning pricing, it is recommended that discounts be maintained at 30%. This will enable the two publishers to retain higher margins on their products and enhance profitability. The higher discounts currently given to customers have not necessarily attracted high sales.

Quality is very key for any product to satisfy the customers. Though it was not found to be a problem currently, it is recommended that the high quality of books be maintained while paying some more attention to the cover quality. This will enhance the readability of the books and attract better sales.

5.5 Need for Further study
The study opens up new areas of study where interested practitioners and researchers can explore for more research. One of the areas for research is that of copyright infringement or generally referred to as piracy. This is because it is an area where publishers would be much interested in order to curb or pre-empt this vice.
Another area of further research is whether to print in-house or to outsource the printing service. This would further clarify the benefits or disadvantages of either of these alternative practices.

Researchers may also be interested in studying the embracing of technology in publishing among the local publishers. This is more commonly referred to as e-publishing and e-marketing.
References

(n.d.).


APPENDIX

RESEARCH INSTRUMENT-QUESTIONNAIRE

SECTION A

Instructions

The questionnaire is strictly in fulfillment of academic requirements of Executive Masters of Business Administration (EMBA) at Management University of Africa. Participants in filling this questionnaire are assured of full confidentiality.

1. What is the name of your Organization? (Optional)

   Department…………………………………………………………

   Gender: Male…………….Female………………………………

SECTION B-EFFECT OF COST OF PRODUCTION

2. On a scale of five how would you rate the cost of production of books in your organization? Please tick one.

<table>
<thead>
<tr>
<th>Very High</th>
<th>High</th>
<th>Moderate</th>
<th>Low</th>
<th>Very Low</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. Do you think cost of production has had an effect on Profitability of your organization?
   Yes………………………………………………No……………………………………
   Please explain………………………………………………………………………………
   …………………………………………………………………………………………………

4. What parameters (list), are used in your place of work to cost a book?
   …………………………………………………………………………………………………
   …………………………………………………………………………………………………
   …………………………………………………………………………………………………
5. Kindly indicate what area of the cost of production that would need to be adjusted………………………………………………………………………………………………………………..
……………………………………………………………………………………………………………………………………..
……………………………………………………………………………………………………………………………………..

SECTION C-EFFECT OF QUALITY ON PROFITABILITY

6. Please tick where appropriate, in the boxes provided and include other responses in relation to your organization. The ratings appear as follows: 5-Strongly agree, 4-Agree, 3-Not sure, 2-Disagree, 1-Strongly disagree

<table>
<thead>
<tr>
<th></th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Quality of a book determines the readability of the book</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Compared to other publishers, the quality of our books is low</td>
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<td>3. Low Quality of our books has contributed to reduced sales</td>
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<td>4. Our Titles are relevant to the curriculum</td>
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<td>5. A book with good content will easily sell regardless of the cover quality</td>
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7. In your own opinion, what area of your organization’s books would need improvement? (Please tick)

a. Book content □□□□□□

b. Paper quality □□□□□□

c. Finishing □□□□□□

d. Cover design □□□□□□
SECTION D- EFFECT OF PRICING ON PROFITABILITY

8. Please tick where appropriate, in the boxes provided and include other responses in relation to your organization. The ratings appear as follows: 5-Strongly agree, 4-Agree, 3-Not sure, 2-Disagree, 1-Strongly disagree

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<tbody>
<tr>
<td>1. The Prices of our titles are too low</td>
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<tr>
<td>2. The pricing strategy in our organization is inadequate</td>
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<td>3. The discounts given by the organization are too high</td>
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9. (Please tick a or b). In my own opinion, prices should be

a. left to the market forces
b. regulated by The Kenya Institute of Curriculum Development

Please explain......................................................................................................................................................

10. What do you consider to be an ideal percentage discount of books in your organization?.............................................................................................................................................................
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SECTION E- EFFECT OF MARKET SHARE ON PROFITABILITY

Please tick where appropriate, in the boxes provided and include other responses in relation to your organization. The ratings appear as follows: 5-Strongly agree, 4-Agree, 3-Not sure, 2-Disagree, 1-Strongly disagree

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<tbody>
<tr>
<td>1. An organization needs to have a large market share (in terms of turnover) for good Profitability</td>
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<td>2. My organization’s Market share has dropped over the last five years</td>
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<td>3. The organization has lost some titles’ market to substitutes</td>
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11. In your own estimate, what do you think is the current percentage market share of your organization relative to the competition? ..........................................................