PRODUCT DIFFERENTIATION STRATEGY FOR COMPETITIVE ADVANTAGE IN KENYA COOPERATIVE CREAMERIES

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Abstract

Although some few studies have been done on the relationship between product differentiation strategies for competitive advantage, information on the strategies used in Kenya is ostensibly missing in the literature. This study therefore sought to determine the role of product differentiation strategy in New Kenya Cooperative Creameries for competitive advantage. Specifically the study sought to determine effect of product support service, branding, packaging and labeling on competitive advantage of KCC. The study employed a descriptive research design. The study targeted a total population of 10822, comprising of 2 Marketing managers, 10 regional managers and 10 route managers from New KCC and 10800 customers buying New KCC products. The sample size was 407. Questionnaires and interviews were used to collect data from the participants. The study established that the major product differentiation strategies used at New KCC include branding, labeling, packaging, product quality and total change in product characteristics. The study has enhanced understanding of how product differentiation influences management decision-making concerning competitive advantage. The management should intensify promotional mix/advertisement to inform customers of the new range of products or the differentiated products.

Key words: Differentiation, Competitive advantage, branding, labeling, packaging

Introduction

Product differentiation refers to such variations within a product class that (some) consumers view as imperfect substitutes. The concept of product differentiation and market segmentation has long been discussed in past literatures by various authors. Shaw (1992) describes product differentiation as meeting human wants more accurately than the competitors. The result is a build up of demand for producers’ products and the potential for price higher than that of existing stock commodity.

Chamberlin (1933) in his theory of monopolistic competition supports the assertion by saying that product differentiation is based on distinguishing the goods or services of one seller from the other on any basis that is important to the buyer and leads to preference. Porter (1997) viewed product differentiation as depending on both physical characteristics and other elements of marketing mix. Porter adhered to the traditional operational definition of product differentiation as the degree of cross-price inelasticity in respect to competing brands. In a demand equation, this cross elasticity is represented by a demand function for the firms’ offering that is relatively unaffected by changes in price of competing products.

Kenya Creameries Corporation

Many organizations today are focusing on becoming more competitive, by launching strategies that give them an edge over others. To do this, they need to implement differentiation strategies. The history of KCC dates back to 22nd August 1925 when KCC became a limited liability company (Ngigi, 1995). The principal business was buying, processing and selling of
dairy products both for domestic and for export market. After the liberalization of the milk industry in 1992, other private processors came in, this posed competition to KCC and it was unable to restructure its operations and reduce the increasing operating costs, and there was also a serious financial irregularity and procurement related problems due to a corrupt management, which led to its collapse (Rosemary and Karuti 2008). Even with its rebirth as The New KCC in June 2003, the company is still facing stiff competition due to the increased competition arising from rival companies like Brookside, Molo Milk, Kilifi Gold, and Premier. The competitors had already gained an edge over New KCC as customers had been used to their products especially at the time when it was not in operation. New KCC have since then adopted many strategies to counter this competition among them product differentiation strategies. Most firms like New KCC have been able to implement these strategies, however, have not yet gained that competitive advantage over their competitors. Arising from this, the study aimed at examining the effects of product differentiation strategy in Kenya Creameries Cooperation.

**Objectives of the Study**

The main objective of this study was to determine the impact product differentiation strategy implementation on organizational competitiveness at the New KCC. Specifically the study sought to:

i. To determine the product differentiation strategies adopted by the New KCC.

ii. To establish the effects of differentiation strategies on competitiveness at the New KCC.

**Theoretical Framework**

The study adopted Chamberlin's theory of Monopolistic competition (1933). Chamberlin was the pioneer of product differentiation and had a special view of market structure, claiming that the power of a producer to differentiate a product as part of the competitive strategy. He asserts that it’s not just a question of a homogeneous good sold in an imperfect market, but the diversity of conditions surrounding each producer faced as monopolist of his own variety. Monopolistic competition embodies elements of monopoly and perfect competition, assuming a great number of sellers, such that the actions of one individual producer have no effects on his competitors. According to Chamberlin, monopolistic elements are not merely the result of consumers’ irrational behaviour, because products are assumed to be differentiated in several degrees. The various degrees of differentiation are, changing the product attributes, branding, and packaging, labeling and offering distinguished product support services. This theory has been supported by Dixit and Stiglitz (1976) and Spence (1976) a model of representative consumer purchase practice brands varying the proportions of each according to their prices and exogenously given utility weights. This model entails competition by all brands for each representative consumer in contrast to the localized competition of the licensed oligopoly market. Scheuing (1994) argues that product differentiation is generally a requirement for market segmentation'. In addition to define what is differentiation, it is important to comment on two other questions: differentiation with respect to what and differentiation in whose eyes. In literature two main streams of approaches to differentiation can be found, one of an economists and the other of a marketers. Schneider, (1993) asserts that differentiated product as a term is not self-explanatory and needs a clear definition. ‘Modified products', 'niche products', 'intermediary paper grades' and ‘upgraded’ or ‘downgraded’ papers are the other terms which are used in a mixed manner when describing a differentiated product.

**Literature Review**

**Competitive advantage**

According to Barney (1991) a firm has a competitive advantage when it is implementing a value creating strategy which is not simultaneously being implemented by any current or potential competitors. A firm is said to have a sustainable competitive advantage when it is implementing a strategy which existing firms or potential competitors are not implementing simultaneously and who are unable to duplicate it or find it too costly to imitate. So, competitive advantage and sustainable competitive advantage do not focus
only on a firm’s competitive position vis-à-vis firms that already operate in the industry. The latter also includes the expansion of the time perspective from present to future. This does not mean, however, that the advantage will last forever. Unanticipated changes in the economic structure or emergence of disruptive, technologies may nullify competitive advantages. However, a sustained competitive advantage is not nullified when competing firms duplicate the benefits of that competitive advantage.

Barney, (1991), asserts that understanding how to exploit its competitive advantage is necessary for a firm to earn above-average returns. To have the potential for a sustainable competitive advantage a firm’s resources must have following attributes: it must exploit valuable opportunities and/or neutralize threats within the firm’s environment, it must be rare among a firm’s current and potential competition, it must be imperfectly imitable and therefore cannot be strategically equivalent substitutes for this resource. Porter (1985) and Barney (1991) opine that understanding the sources of sustained competitive advantage for firms, has become a major area of research in the field of strategic management since the 1960’s. A firm is said to have a sustainable competitive advantage when other existing or potential competitors are unable to duplicate it or it proves to be too costly to imitate.

According to Barney (1991) when following a resource-based view of the strategy, a firm’s resource must be valuable in exploiting opportunities and/or neutralizing threats, it must be rare, imperfectly imitable and there cannot be equivalent substitutes for this resource in order to be sustainable. Porter (2006) reemphasized the importance of analyzing the five competitive forces in developing strategies for competitive advantage: “Although some have argued that today’s rapid pace of technological change makes industry analysis less valuable, the opposite is true. Analyzing the forces illuminates an industry’s fundamental attractiveness, exposes the underlying drivers of average industry profitability, and provides insight into how profitability will evolve in the future. The five competitive forces still determine profitability even if suppliers, channels, substitutes, or competitors change

Product Differentiation Strategies

According to Porter (1991) the major agenda of management is how to beat competitors. Even if an organization is able to satisfy its customers, the competitors might fill customers’ needs better and faster at a lower price. This means that it is no longer competitive. Therefore, Corporations need to develop strategies differentiating themselves from competitors. Differentiation strategies require superior engineering and design capabilities. The efforts of many corporations are concentrated on technologically superb products, and naturally engineers lead this drive. As engineers become a driving force in developing new products, technologies and new functions are the starting points. The problem is that when functions and features are added, customers neither notice nor find value.

Branding

Aaker and Joachimsthaler (2000) define a brand in the following way: it is that which remains after the impact of attributes has been subtracted. The product includes characteristics such as product scope, product attributes, quality/value, uses and functional benefits. A brand includes these product characteristics and a lot more: user imaginary, country of origin, organizational associations, brand personality, symbols and brand/customer relationships. Perhaps the most distinctive skill of professional marketers is their ability to create, maintain, protect, and enhance brands of their products and services. A brand is a name, term, sign, symbol, or design, or a combination of these, that identifies the maker or seller of a product or service.

According to Brassington (2006) when a company manages its brands it has a number of strategies it can use to further increase its brand value. These are: Lineextension: This is where an organisation adds to its current product line by introducing, versions with new features, an example could be a Crisp manufacturer extending its line by adding more exotic flavors. Brandextension: If your current brand name is successful, you may use the brand name to extend into new or existing areas. For example Virgin extending its brand from records, to airlines, to mobiles. MultiBranding: The
Company decides to further introduce more brands into an already existing category. Nestle for example have a number of brands in the cereal market and the cereal bar market. Multi-branding can allow an organisation to maximize profits, but a company needs to be weary over their own brands competing with each other over market share. NewBrands: An organisation may decide to launch a new brand into a market. A new brand may be used to compete with existing rivals and may be marketed as something ‘new and fresh’.

**Brands and Competitive Advantage**

According to Fournier (1998) branding is a potent means to establish competitive advantage. The brand culture concept helps us see why this is so. Brand cultures are “sticky.” Once they have accepted them as conventional wisdom, people are usually reluctant to abandon the conventions of the brand culture. Unless they have product experiences or encounter brand stories that profoundly contradict conventions, people are usually happy to maintain the taken-for-granted understandings of the brand. In addition to the stickiness of taken-for-granted understandings, there are two reasons for this durability. Psychological research demonstrates that brand cultures are durable because people are cognitive misers. Because we are so overloaded with information—far more information than we can reasonably digest even if we wanted to—we rely upon a variety of heuristics to simplify the world. We seek ways to minimize the amount of thinking and searching that we must do to make good decisions. Brand cultures work as one such heuristic. Once we determine that the conventional wisdom of a brand culture “works” for us (e.g., a detergent whose conventional brand story is that it performs great in all temperatures seems to do so), we are not interested in seeking out new information that would contradict this assumption. The heuristic provided by the brand works well, so we go on using it. Sociological research demonstrates another reason why brand cultures are durable. Brand cultures are shared by many people and expressed in a variety of contexts (talk, product experiences, ads, and so on). Brand cultures are maintained as the brand’s stories, images, and associations pulse through these networks. Hence, it is quite difficult for an individual to opt out of the conventional wisdom of a brand culture and assign the brand alternative meanings. Just as brand cultures are formed collectively, to decommission a brand is also a collective decision. Because of this network effect, brand meanings maintain a tenacious hold until a critical mass of customers and influencers join together to transform conventions. Powerful brand cultures provide competitive advantage not only with respect to consumers but also in negotiations with channel partners. A strong brand culture gives the firm considerable leverage in configuring channel policies and provides leverage in negotiating with retailers.

**Packaging and Labelling**

Jay (2006) asserts that labels may range from simple tags attached to products to complex graphics that are part of the package. They perform several functions. At the very least, the label identifies the product or brand, such as the name Sunkist stamped on oranges. The label might also describe several things about the product—who made it, where it was made, when it was made, its contents, how it is to be used, and how to use it safely. Finally, the label might promote the product through attractive graphics. Porter (1980) packaging involves designing and producing the container or wrapper for a product. Jay (2006) argued that an important part of the product decision making process is the design of the packaging. An effective packaging strategy can contribute to the firm’s competitive advantage.
Methods and Data
The target population was 10822 which comprised of 2 Head of departments of New KCC, 10 route managers, 10 Regional managers, 385 supermarket customers buying milk. The researcher visited the four supermarkets that are Tuskys, Uchumi, Naivas and Nakumatt all based in Nairobi for four days alternating to avoid repetition.

Sample Size and Sampling Procedure
The sample size for the study was 407 participants which comprised of 2 Marketing managers, 10 route managers, 10 Regional managers, and 385 supermarket customers buying milk.

To determine the sample the study followed Slovin’s formula as shown below.

Equation 3.1 \[ n = \frac{N}{(1+Ne^2)} \] where,

- \( n \) = number of sample
- \( N \) = Total population
- \( e \) = Margin of error (0.05)

\[ N=10,800 \]
\[ n = 10,800 / (1+10,800x0.05^2) \]
\[ n = 10,800/28 = 385 \]

Stratified and purposive sampling techniques were used due to the nature of participants. Stratified was first used to group participants into homogeneous groups and then purposely selected since information needed wholly dependent on a particular participants. The study used both primary and secondary data. Secondary data was obtained from journals, New KCC records, government records, books, and economic surveys. Primary data was obtained using questionnaires and interview schedule. A questionnaire was used to collect information from New KCC marketing managers, route managers and regional manager both open and close-ended. We administered a structured interview schedule to customers. This was appropriate as it provided an opportunity to collect data from the category of participants who were not in a position to respond to questionnaires due to limited time. Test-retest method was used to test the reliability of the research instruments.

Regression model
\[ Y = \beta_0B + \beta_1L + \beta_2P + \beta_3Q + \beta_4TC+ \in \]

Where:
- \( Y \) = competitive advantage
- \( B \) = Branding
- \( L \) = Labelling
- \( P \) = Packaging
- \( Q \) = Product quality
- \( TC \) = Total Change in product characteristics
- \( \beta \) = Level of Effect
- \( \in \) = Error term

Results
Product Differentiation Strategies used in New KCC
Companies use various product differentiation strategies to remain competitive in the market. The study sought to determine the major product differentiation strategies used by New
KCC to gain competitive edge. The findings of this component are as shown in Table 4.6. The study used a five point Likert scale.

### Table 1.1 Product Differentiation Strategies used in New KCC

<table>
<thead>
<tr>
<th>Strategies</th>
<th>F</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branding</td>
<td>9</td>
<td>40.91</td>
</tr>
<tr>
<td>Packaging</td>
<td>6</td>
<td>27.27</td>
</tr>
<tr>
<td>Labeling</td>
<td>3</td>
<td>13.64</td>
</tr>
<tr>
<td>Product quality</td>
<td>4</td>
<td>18.18</td>
</tr>
</tbody>
</table>

Source: Field Data (2015)

When the Marketing managers, route managers and Regional managers were asked to give the differentiation strategies that were employed by New KCC, 9 (40.91%) gave branding, their reasons were that branding has become one of the most important aspects of business strategy. Yet it is also one of the most misunderstood. And many managers and business writers hold the view that branding is about the management of product image, a supplementary task that can be isolated from the main business of product management. Six (27.27%) of the employees gave packaging as the most preferred differentiation strategy at New KCC. Their view was that, Packaging conveys stories, images, and associations about the product inside, creating meaning that attracting customers, and giving an organization a competitive advantage over competitors. Four (18.18%) of the employees suggested that product quality was a differentiation strategy that New KCC used to gain a competitive edge over competitors. Their reason was that definition of quality has changed with the passage of time with changing customer’s needs and requirements. The essence has more or less been to develop an approach to problem solving, conformation to standards for customer satisfaction. With management functions getting complex, approaches to managing quality in functional areas are becoming difficult. Organizations, which have successfully use quality, have customer and quality embedded in their corporate strategy. This in turn gives the organization a competitive advantage.

Three (13.64%) of the employee gave labeling as another differentiation strategy that New KCC use. This was the least since most employees saw it as part of packaging and that packaging and labeling go hand in hand.

#### Basis of Differentiation at the New KCC

Products in companies are differentiated based on various bases. The researcher found it paramount to ascertain the basis of product differentiation at the New KCC and the findings of this concern were as follows.

### Table 1.2 Basis of Differentiation at the New KCC

<table>
<thead>
<tr>
<th>Basis</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>D</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>6</td>
<td>28.6</td>
<td>9</td>
<td>42.9</td>
<td>3</td>
</tr>
<tr>
<td>Shelf life</td>
<td>9</td>
<td>42.9</td>
<td>6</td>
<td>28.6</td>
<td>6</td>
</tr>
<tr>
<td>Content</td>
<td>9</td>
<td>42.9</td>
<td>13</td>
<td>57.1</td>
<td>-</td>
</tr>
<tr>
<td>Variant</td>
<td>9</td>
<td>42.9</td>
<td>-</td>
<td>-</td>
<td>13</td>
</tr>
</tbody>
</table>

SA=Strongly Agree A=Agree U=Undecided D=Disagree SD=Strongly Disagree

Source: Field Data (2015)

When employees were asked to give the basis of product differentiation at New KCC 6 (28.6%) of the employees strongly agreed that size of product packaging, at the KCC, 9 (42.9%) agreed with this basis of product differentiation and only 3 (14.3%) were undecided. The researcher found out that, Tetra Rex 1 litre, 500 ml Tetra Classic: 500 Ml, 200 ml Polythene: 500 ml, 200 ml and Bottles 1 ltr, 2 Ltr, 3 ltr were among the different sizes of New KCC product. The different sizes and types of packaging give the company an advantage. Shelf life is another basis of product differentiation at the New KCC as strongly agreed by 9 (42.9%) of the employees.
and agreeable among 6 (28.6%) of the employees while 6 (28.6%) were undecided. Shelf life differed depending on the type of product, ranging from 2 days to 2 years. Further, 9 (42.9%) of the employees strongly agreed that the product content is another basis of product differentiation at the company and 13 (57.1%) did agree with the same. Customers have different needs, tastes and preferences, and therefore the content is a very important attribute. Customers sensitivity for Proteins, Fat, Carbohydrates, and Minerals/Vitamins have greatly increased and thus the need to differentiate products on the basis of content due to health issues. Finally, 9 (42.9%) strongly agreed that variant is a basis of product differentiation at the New KCC and 13 (57.1%) remained undecided. The findings show that size, shelf life and content are the major bases of product differentiation in the company. With majority strongly agreeing to product variant, shelf life and content, it meant that they were all important and played a crucial in putting the company at a competitive edge.

Reasons for adoption of Product Differentiation Strategy at the New KCC

The study sought to determine reasons for product differentiation strategy implementation at the New KCC and the findings were as follows.

### Table 1.3 Reasons for Product Differentiation Strategy Implementation

<table>
<thead>
<tr>
<th>Elements</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>D</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competition</td>
<td>F</td>
<td>%</td>
<td>F</td>
<td>%</td>
<td>F</td>
</tr>
<tr>
<td>Competition</td>
<td>6</td>
<td>28.6</td>
<td>6</td>
<td>28.6</td>
<td>6</td>
</tr>
<tr>
<td>Enhance quality of products</td>
<td>3</td>
<td>14.3</td>
<td>13</td>
<td>57.1</td>
<td>6</td>
</tr>
<tr>
<td>Gain a High Market Share</td>
<td>9</td>
<td>42.9</td>
<td>9</td>
<td>42.9</td>
<td>3</td>
</tr>
<tr>
<td>The changing tastes, preferences and needs of customers</td>
<td>6</td>
<td>28.6</td>
<td>9</td>
<td>42.9</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Field Data (2015)

Competition is one of the reason of product differentiation strategy implementation at the New KCC as strongly agreed by 6 (28.6%) of the employees, 6 (28.6%) did agree with the reason, 6 (28.6%) were undecided on the same and 3 (14.3%) were in disagreement. Most of the employees asserted that as a result of competition, competitive differentiation strategies must be crafted for milk processing companies since they exist in a monopolistic market offering homogeneous products. Some 3 (14.3%) of the employees strongly agreed that quality is another element of product differentiation at the company, Prajogo (2007). The differentiation strategy is effectively implemented when the business provides unique or superior value to the customer through product quality.13 (57.1%) were in agreement with this reason and 6 (28.6%) were undecided.

Further, 9 (42.9%) strongly agreed that gaining a high market share is an reason for product differentiation at the company, another 9 (42.9%) were in agreement with this element and 3 (14.3%) remained undecided. (Bertrand, 1987): affirms that when firms produce homogenous products, price is the only variable of interest to consumers. Consequently, no firm can raise its price above marginal cost without losing its entire market share. In contrast, product differentiation establishes market niches and allows firms to enjoy some market power over these clienteles.”

Finally, 6 (28.6%) of the employees strongly agreed that customer changing tastes, preferences and needs is a reason for product differentiation at the New KCC, 9 (42.9%) agreed with the same and 6 (28.6%) were undecided. This study viewed a market as consisting of buyers and sellers. The buyer determines the products to be availed for sale on markets and firms strive to satisfy these varying insatiable demands. The interplay of demand and supply is a function of tastes and preferences which every manufacturer aims to win. The purpose of any business is to make as many sales as possible.

The findings show that competition, change of tastes and preferences and need for quality has
been cited as a source of creativity. This has made other players to vary their product lines to gain competitive advantage.

**Effects of Product Differentiation Strategy Implementation on Competitive Advantage**

The main objective of the study was to determine the extent to which product differentiation strategy influence competitiveness.

Asked on the effects of product differentiation strategy implementation on competitive advantage at New KCC, the employees responded as shown in Table 4.9.

**Effects of Product Differentiation Strategy Implementation on Competitive Advantage**

When New KCC employees were asked to give effects of product differentiation strategy on competitive advantage, these were the results.

<table>
<thead>
<tr>
<th>Effects</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>D</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Market Share</td>
<td>9</td>
<td>42.9</td>
<td>9</td>
<td>42.9</td>
<td>3</td>
</tr>
<tr>
<td>Customer Loyalty</td>
<td>6</td>
<td>28.6</td>
<td>13</td>
<td>57.1</td>
<td>3</td>
</tr>
<tr>
<td>Customer Satisfaction</td>
<td>13</td>
<td>57.1</td>
<td>6</td>
<td>28.6</td>
<td>3</td>
</tr>
</tbody>
</table>

**Source: Field Data (2015)**

The findings in Table 4.9 show that 9 (42.9%) strongly agreed that product differentiation implementation strategy has led to high market share in the company, another 9 (42.9%) were in agreement with the effect and 3 (14.3%) were undecided. This can be observed that majority of the employees were in agreement that product differentiation increases a firms’ market share through increased sales volume.

Product differentiation strategy implementation has led to customer loyalty as strongly agreed by 6 (28.6%) of the employees and agreeable among 13 (57.1%) of the employees while 3 (14.3%) were undecided. Rytkönen (1996) asserts that increasing customer loyalty decreases pressure on price, acting as a buffer against competitive actions.

Customer satisfaction is brought about by product differentiation strategy implementation as strongly agreed by 13 (57.1%) and agreeable among 6 (28.6%). This is supported by Porter (1996) who asserts that the fit among activities substantially reduces cost or increase differentiation.

Second, product differentiation reflects the competitive pressures exerted by both, the producer and the customer. Indirectly increasing customer focus can help to identify market gaps and reveal new market opportunities: A milk producer is more sensitive to signals coming from customers. Customer focus forces producers to learn customers’ business logic and thus helps to identify potential for differentiated products.

Thirdly, the major product differentiation strategies used at New KCC include branding, labeling, packaging, product quality and total change in product characteristics. The reasons for adopting product differentiation strategy at the New KCC are competition from firms selling advantage at New KCC.
substitute products such Brookside, Molo Milk, Ilara, and Buzeki, to enhance product quality, and gain a high market share as well as adhere to the changing customers’ tastes and preferences.

The major effects of product differentiation strategy implementation on gaining competitive advantage include company’s high market share, customer loyalty and customer satisfaction. The study is appropriate, both in terms of practice and theory. First of all, it has enhanced understanding of how product differentiation influences management decision-making concerning competitive advantage. The management should intensify promotional mix/advertise to inform customers of the new range of products or the differentiated products. The study recommends that in order to overcome challenges related to core competence it needs to strengthen training programmes, employ, evaluate the skills required to produce a competitive product cheaply, and leadership need to empower employees to go for exemplary innovations.

References
