THE EFFECTS OF COMPETITIVE STRATEGIES ON PERFORMANCE OF DAIRY FIRMS IN KENYA

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April 2013
DECLARATION

I hereby declare that this research project is my original work and has not been presented for a degree or any other award in any other university.

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This research project has been submitted for the examination with my approval as university supervisor

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Kenyatta University
DEDICATION

This research work is dedicated to my dear grandma, Priscilla Maluku who has encouraged me to work very hard in school, live long my grandmother.

God bless you.
ACKNOWLEDGEMENT

I sincerely appreciate the efforts of my supervisor, Mr. Phillip Wambua who has given me the guidance, advice and positive criticism as I worked on this research project. I sincerely thank you sir.
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OPERATIONAL DEFINITION OF TERMS

Strategy – This refers to a plan of action designed to achieve a particular goal

Generic Competitive Strategies - Developed by Porter. They are generic because they are applicable to a large variety of situations and contexts.

Cost Leadership – An integrated set of actions designed to produce or deliver goods or services with features acceptable to customers at the lowest cost relevant to competitors.

Differentiation – A strategy of making products and or services unique. It adds costs in order to add value for which customers are willing to pay a premium.

Focused Strategy – A strategy chosen by firms when they want their core competencies to serve a particular industry segment.
ABBREVIATION AND ACRONYMS

GDP: Gross Domestic Product
R&D: Research and Development
SPSS: Statistical Package for Social Sciences
PIMS: Profit Impact of Marketing Strategy
BSC: Balanced Scorecard
KCC: Kenya Cooperative Creameries.
BCG: Boston Consulting Group.
ABSTRACT
Agriculture is the mainstay of the Kenyan economy accounting for 24% of the GDP and accounting 18% of all formal employment in the country. Agriculture includes crop husbandly and animal production. The livestock sector in Kenya accounts for 10-15 % of the GDP. Au -IBAR, Kenya livestock sector study. The sector employs about 50% of the total labor force in the agricultural sector. The sector contributes over 30% of the agricultural GDP, out of this the dairy sector accounting for 8% of the total GDP. The dairy sector in Kenya is rapidly and at present, the industry has made a turn around with the annual production of milk exceeding 4 billion litres out of which 2.1 billion litres is marketed is marketed formally and informally. The volumes of milk going to the processing plants have also increased to 516 million litres in 2010 as compared to 144 million litres in 2002 (a growth of 258.5%). The dairy sector is a major source of livelihoods to a large majority of Kenyans and it acts as a source of income and employment to over 1.5 million smallholder farmers in addition to 500,000 jobs in milk transportation, processing and distribution and a further 750,000 in related support services. The rural based nature of dairying makes it a suitable enterprise to contribute towards the achievement of the government strategy to meeting millennium development goals and vision 2030. The purpose of this study was to establish the effects of competitive strategies on the performance of dairy firms in Kenya. The study focused on the strategies and approaches employed by the various firms, to establish how this relates to competitive advantage and are manifested in performance. The main objective of the study was to establish the effects of competitive strategies on performance of dairy firms in Kenya. The specific objectives were to examine the relationship between cost leadership strategies and performance, to establish the differentiation strategies and their relationship to performance, to examine focus strategies and their relationship with performance. A survey involving fifteen dairy firms was done. Data was
collected using personally administered questionnaires; this was edited then coded. Descriptive statistics was used to analyze the data which was presented in percentages, frequency distribution tables and other descriptive statistics such as mean and standard deviation. The statistical package for social sciences (SPSS) was used. This information was displayed by the use of bar charts, graphs and pie charts. The results of the data analysis were presented and conclusions were drawn. From the results it was concluded that all the three competitive strategies of Cost leadership, Focus and differentiation have a positive and significant relationship to performance. This study recommends that dairy firms in Kenya should use more of the focus strategy than the other two generic competitive strategies since it has the biggest significant relationship to performance.
CHAPTER ONE
INTRODUCTION

Thompson (2001) defines a strategy as a word of military origin referring to a plan of action designed to achieve a particular goal. Strategy is a framework through which an organization can assert vital continuity whilst managing to adapt to the changing environment to gain competitive advantage. According to Wheelen (2008), strategic management is that set of managerial decisions and actions that determines the long-run performance of an organization; it includes environmental scanning, both external and internal, strategy formulation, strategy implementation, evaluation and control. According to Igor Ansoff (1984) strategic management is a systematic approach to the major and increasingly important responsibility of general management to position and relate the firm to its environment in a way which will assure its continued success and make it secure from surprises. Consequently strategic planning is that decision making process that aligns the organization internal capability with the opportunity and threats it faces in its environment.

According to Hoskisson (2004) a strategy of an organization forms a comprehensive master plan that states how the organization will achieve its mission and objectives. It maximizes competitive advantage and minimizes disadvantage. The typical business firm usually considers three types of strategy: corporate strategy, business and functional strategy. Corporate strategy describes a company’s overall direction in terms of its general attitudes towards growth and management of its various businesses and product lines. Corporate strategy usually fit within the three main categories of stability, growth and retrenchment. Business strategy usually occurs at the business unit or product level and it emphasizes improvement of the competitive position of a company’s products or services in the specific industry or market segment served by that business unit. Functional strategy is the approach taken by a functional area to achieve corporate and business unit objectives and strategies by maximizing resources productivity. It is concerned with developing and nurturing a distinctive competence to provide a company or business unit with competitive advantages; examples are technological followership (imitation of the product of other companies)
and technological leadership (pioneering of an innovation). Functional strategies support business strategies, which, in turn support the corporate strategies.

Mintzberg (1994) poses that a strategy is a response to internal factors or forces which can be simple or complex but which are perceived as being critical to the existence of an organization. Basu (1999) poses that in order to be in a good position to complete with other firms in your industry you must have an understanding of what you are up against competition wise thus this calls for competitor analysis. According to Johnson and Scholes (2002) the survival and success of organizations are influenced by their ability to respond to the following competing pressures; changes in the business environment, strategic capability of an organization; its resource, competences and cultural-political and context the expectation and purposes. The environment within which a firm operates is perhaps the largest determinant of the strategies it adopts. Porter (1980), states that the essence of formulating a competitive strategy is to relate an organization to its environment. Organizations are environment dependent and therefore for organizations to achieve their goals and objectives they must constantly adjust to their environment which is very dynamic. This environment is turbulent, constantly changing and so it makes it imperative for the organization to continuously adapt their activities in order to survive. The success and survival of every organization depends on how well it relates itself to the external environment, firms are also affected by environmental changes. These include both natural environmental and external business environment. Understanding these changes facilitates the understanding of the behaviour of these firms. This study will look at effects of competitive strategies on performance of dairy firms in Kenya.
### 1.1 Competitive Advantage in the dairy industry

A competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and services that justifies higher prices. In an industry, a firm will strive to offer its customers better services and products of superior quality than its competitors. This gives the firm a competitive advantage over its competitors operating in the same industry.

### 1.2 The dairy industry in Kenya

The history of the dairy industry in Kenya dates back to 1902 when the first exotic cows were introduced by the European settlers. As of now Kenya hosts about 3.55 million heads of dairy cattle. The Sywnnerton Plan of 1956 allowed indigenous Kenyans to engage in commercial dairy farming. The first creamery was established in Naivasha in 1922. In 1958, the Kenya Dairy Board was established through an Act of Parliament, the
Dairy industry Act Cap 336 of the laws of Kenya with the overall objective of regulating the dairy industry to ensure smooth development in the industry. Kenya Cooperative Creameries Ltd (KCC) had a monopoly in the dairy sector and there were no other milk processors in the industry as at that time.

The Dairy industry was liberalized in 1992 which allowed the private sector to participate in milk processing and marketing activities. This saw the entrance of a number of private milk processors and also the advent growth of the informal sector and to date Kenya has more than thirty dairy firms in the formal sector. Some of the major milk processors are New KCC, Brookside Dairy, Sameer Agriculture and Livestock, Githunguri Dairy Farmers Cooperative Society, Buzeki dairy, Bio food products, CWAY Kenya foods and beverage company, Nestle and Limuru Milk Processors Ltd just to mention a few. These firms are faced with stiff competition among themselves and hence the need to employ competitive strategies in order to perform effectively in the market.

1.3 Statement of the Problem

The dairy industry is one of the most rapidly expanding sub sectors in Kenya. According to the Kenya Dairy Board, the annual volume of milk going to the milk processing plants has increased to 516 million litres in 2010 as compared to 144 million litres in 2002 (an increase of 258.33%). The industry is also a major source of livelihood to a large majority of Kenyans and it contributes to about 8% of Kenya’s GDP and acts as a source of income and employment to over 1.5 million small holder dairy farmers in addition to 500,000 direct jobs in milk transportation, processing and distribution and a further 750,000 in related support services. Due to this rapid expansion of the dairy sector, all the dairy firms in the industry need to develop and implement sound and competitive strategies in order to guarantee acceptable performance in the competitive environment. There is stiff competition among the various milk processing firms in Kenya since they compete for the same customers. After the liberalization of the dairy sector in 1992, several milk processing firms have entered the market and thus this has caused stiff competition in the industry. This cut throat competition for the market has witnessed the collapse of some dairy firms with some not growing at all in the market. In some cases business takeovers has been evident as was the cases with Brookside
dairy ltd buying over the then Delamere dairies and Spin Knit dairy ltd. so as to consolidate its operations and strength in the market. The main question is what strategies dairy firms can employ in order to achieve a competitive advantage over their competitors in the market and whether these strategies adopted help meet their performance expectations efficiently and effectively.

Kamonzo (2011) did a survey of the effects of competitive strategies on performance of Veterinary pharmaceuticals firms in Nairobi county in Kenya, this being in the veterinary sector, it will be interesting to compare with the results in the dairy sector which is agriculture based. A research study done by Dobson in 2007 was aimed at establishing the competitive strategies of dairy processing firms in Ireland while this study will seek to establish the effects of competitive strategies on performance of dairy firms in Kenya. Chelungut (2003) conducted a research study on the responses of milk processing firms to increased turbulence in the macro environment of the dairy sector in Kenya, this was a case study of the New KCC Ltd. Nyangiloh (2009) researched on the turnaround strategies adopted by the New KCC Ltd. While these studies were case studies of one of the major dairies in Kenya, this research will be a survey study of the effects of the competitive strategies on the performance of the many dairy firms in Kenya. This study is aimed at establishing effects of competitive strategies on performance of dairy firms in Kenya and will also aim to recommend the best strategy dairy firms in Kenya can adopt to optimize their performance.

1.4 Objectives of the Study

1.4.1 General Objective

To determine the effects of competitive strategies on performance of dairy firms in Kenya.

1.4.2 Specific Objectives of the Study

i. To determine the relationship between Cost leadership strategy and the market performance of dairy firms in Kenya.

ii. To determine the relationship between Differentiation strategy and the market performance of dairy firms in Kenya.
To determine the relationship between Focus strategy and the market performance of dairy firms in Kenya.

1.5 Research Questions
The research will be guided by the following Questions.

i. Does Cost leadership strategy influence the market performance of dairy firms in Kenya?

ii. Does Differentiation strategy affect the market performance of dairy firms in Kenya?

iii. Does Focus strategy influence the market performance of dairy firms in Kenya?

1.6 Significance of the Study
This study is of importance to the following stakeholders. New market entrants in the dairy industry in Kenya, the study will strive to show the importance of adopting the right strategies to achieve a competitive advantage. This will also show the relevance of competitive strategy planning and its correlation to performance. The existing dairy firms in the country, the study will help any firm operating in the dairy industry in Kenya to understand competitive strategy and its importance to performance. To research institutions and academia, a part from contributing to the body of knowledge; this study will lay a platform for future researchers with an interest in the strategies employed by dairy firms in Kenya and elsewhere in the world.

1.7 Scope of the study
The study covered the dairy firms in Kenya which formed the population of the study from which the sample was collected. The study looked into the effects of competitive strategies on performance of the various dairy firms in Kenya.

1.8 Limitation of the Study
The major challenges that were faced during the course of the study were financial, geographical location of the various dairy firms and time constraints. Time constraints on the side of the researcher and the respondents who needed to sacrifice their time to
fill in the questionnaires. Dairy companies are located all over the country and this posed a challenge as the respondents were not in one location.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
The concept of competitive strategies will be reviewed from various sources in this chapter. This will be followed by a theoretical literature review of Michael Porters Generic competitive strategies which forms the basis of this study. Cost leadership, Differentiation, Focused strategy and Market performance indicators will also be analyzed. Finally empirical literature where similar studies have been carried out will be reviewed and this will be followed by the conceptual framework of this study.

2.2 Theoretical Literature Review
2.2.1 Strategic Management Theories
The Profit Impact of Marketing Strategy (PIMS) theory was developed in the mid 1960s at the General Electric Company and is a large scale study designed to measure the relationship between business actions and business results in an organization. According to Gupta 2003, the PIMS comprises of a database of business strategies that are used to generate benchmarks and identify winning strategies, a set of data–derived business strategy principles to guide strategic thinking and strategic measurement. The PIMS has a methodology for diagnosing business problems and opportunities, and for measuring the profit potential of a business. The Resource based theory of competitive advantage aims at identifying and classifying the firm’s resources, appraises the strengths and weakness relative to competitors and identifies opportunities for better utilization. This theory looks at the firm’s capabilities, what the firm can do more effectively than its rivals and appraises the rent generating potential of resources and capabilities in terms of their potential for sustainable competitive advantage and the appropriability of their returns. Finally this theory selects a strategy which best exploits the firm’s resources and capabilities relative to external opportunities and it identifies the resource gaps which need to be filled by investing in replenishing, augmenting and upgrading the firms resource base.

The Ansoff Product-Market Growth Matrix portrays alternative corporate growth strategies and focuses on the company’s present and potential products and markets. The
matrix helps companies understand what actions need to be carried out given the current performance of the business and this theory is suited to company that is in need of a strategic change in order to maintain growth. According to Macmillan and Tampoe (2000), choice and strategic choice refer to the process of selecting one option for implementation, in relation to Ansoff product / Market matrix this means that a company need at some point in their growth phase to make a decision as to what products or services they should offer in which markets. The matrix tries to identify the position of the company now, where the company wants to be, where the company will be without a change in the strategy and establishes the gap between the two.

The theory of Portfolio analysis was developed by Harry Markowitz and other financial theorists. The portfolio theory shows that a broad portfolio of financial assets could reduce specific risks. Several techniques were developed to analyze the relationships between elements in a portfolio, the B.C.G analysis for example was developed by the Boston Consulting Group in early 1970s and this was the theory that showed the wonderful image of a CEO sitting on a stool milking a cash cow.

Michael Porter’s Generic Framework theory gives techniques for analyzing industries and competitors. This theory can be used to find the optimum position for a company within an industry and often a determinant of a company’s profitability can be said to be the attractiveness of an industry in which it operates. This means that companies that manage to place them self correctly can generate more profits than companies who have not thought about their optimal position. The framework is called generic because it is not industry dependent. A company should reflect on its strengths and weaknesses in order to find its competitive advantage, and this unique strength should be leveraged. Michael Porter argued that a company’s strength ultimately could be placed into two categories: cost advantage or differentiation. Application of those strengths in either a broad (industry wide) or narrow (market segment) scope results in three generic strategies according to Porter: Cost leadership, differentiation and focus strategies, all these strategies are supposed to be applied on a business unit level. This research project will be anchored on the Porters generic framework theories.
2.2.2 The Concept of Competitive Strategies

A company has competitive advantage whenever it has an edge over its rivals in terms of attracting customers and defending against competitive forces. A firm’s competitive strategies consist of the business approaches and the initiative it takes to attract customers with stand competitive pressure and strengthens its market share. Thus the firm has to focus in creating tomorrow’s competitive advantages faster than competitors mimic the ones it poses today. The strategy for gaining competitive advantage combines both offensive and defensive actions. Competitive strategies have a narrow scope than business strategies; competitive strategy deals exclusively with management’s action plan for competing successfully and providing customers with more superior value.

According to Porter (1980), there are five business strategies that can be adopted by organisations to gain competitive advantage. The five strategies relate to the extent to which the scope of a business’ activities are narrow versus the broad and the extent to which a business seeks to differentiate its products.

Type of competitive advantage being pursued

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<th>Differentiation</th>
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<td>Broad range of buyers market wide</td>
<td>Overall Low-cost leadership strategy</td>
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<tr>
<td>Particular buyer segment or market niche</td>
<td>Broad differentiation strategy</td>
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<tr>
<td></td>
<td>Best cost provider strategy</td>
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<td></td>
<td>Focused low cost strategy</td>
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<td></td>
<td>Focused differentiation strategy</td>
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Figure 2.1: The Five generic competitive strategies
Source: Adapted from Porter M.E (1980)
According to Neely (1998) the organization efficiency and effectiveness are the two most fundamental dimensions of performance and hence the two should be measured. This efficiency refers to how economically the organizations resources are utilized whereas effectiveness refers to how accurately the organizations products and services do satisfy the customer needs. The Oxford dictionary of Business (1998) states that efficiency is a measure of how successfully the inputs have been transformed into outputs while effectiveness is a measure of how successful does the system achieve its desired outputs.

The dairy industry performance indicators are the firm’s annual plant processing capacity, market share, profitability, net worth, financial leverage, productivity and to what extent is the firm is being recognized by the other competitors in the industry. Dibb et al (1997) states that a competitive strategy indicates a specific market towards which activities are to be targeted and the types of competitive advantages that are to be developed and exploited. This study will aim to establish the effects of competitive strategies on performance of dairy firms in Kenya.

2.2.3 Competitive Strategies
Porter (1980) suggests three generic strategies that a firm can adopt to develop competitive advantage over its competitors in a competitive environment. These generic strategies are Cost Leadership, Differentiation and Focus strategies. According to Thompson (1996) a company’s competitive strategy consists of business approaches and initiatives it takes to attract and withstand competitive pressures and strengthen its market position. Each organization should develop a strategy for competing which should involve both offensive and defensive actions with emphasis shifting from one to the other as market conditions dictate. Organizations will develop ways of attracting customers to adopt their products and thus gain customer loyalty through repeated sales and try to out compete their rivals who offer similar products or substitute products and hence the organizations gain an edge in the target market.
2.2.4 Generic Competitive Strategies

According to Porter (1980) there are three generic competitive strategies that business firms can adopt to deal with their competitors; they are Differentiation, Low Cost leadership and Focus strategy. Differentiation strategy is used by organizations to compete by offering a variety of products to their prospective customers. According to Thompson and Strickland (2001) this strategy seeks to differentiate the company’s products by offering different products from rivals in ways that will appeal to a broad spectrum of buyers. The differentiation strategy is an integrated set of action designed by a firm to produce and deliver products at an acceptable cost that customers perceive as being different in ways that are of importance to them. According to Thompson (1997) the differentiation strategies become an attractive competitive approach whenever buyer’s needs and preferences are too diverse to be fully satisfied by a standardized product. To be successful with a differentiation strategy, a company has to study carefully buyer’s needs and behaviour to learn what buyers consider important, what they think has value and what they are willing to pay for. According to Hoskisson (2004) a firm using the differentiation strategy seeks to be different from the competitors on as many dimensions as possible. The less similarity between the firms goods and those of competitors the more buffered it is from rivals actions. A firm can differentiate its’ products in many ways either by using unusual features, rapid product innovation, technological leadership, perceived prestige and status, different tastes and engineering design and performance are examples of approaches to differentiation.

Low cost leadership strategy is where firms achieve lower cost than their rivals and thus it’s able to compete across a broad range of segments. According to Harvey (1988) cost leadership is described as striving to be the overall low cost provider of a product or service that appeal to a wide range of customers. The cost leadership strategy is an integrated set of actions designed to produce or deliver goods with features that are acceptable to customers at the lowest cost, relative to that of competitors. The low cost leaders aim to have cost advantages while serving a broad market segment of customers. Firms that operate in markets that are characterized by buyers who are price sensitive find this low cost strategy very useful and powerful strategy that they can apply to gain
more customers. The aim of this strategy is to open up a sustainable cost advantage over competitors and the firms lower cost of operation edge as a basis for either under pricing their goods and services and in turn gaining market share at the expense of competitors or the firm earn a higher profit margin by selling their products at the prevailing market prices. Dairy firms can acquire cost advantage by improving their process efficiency, accessing low cost raw materials and inputs, making optimal out sourcing, making vertical integration decisions and cutting down overall costs of operation and avoiding some costs altogether. According to Porter (1998) once low cost has been achieved, the position provides high profit margins which can be re-invested in new equipment, modern facilities and technology to maintain the cost leadership.

The third generic competitive strategy is the Focus strategy where a company chooses to concentrate on one particular segment or a limited segment of the target market. For a business firm using this focus strategy approach can opt to either seek lower costs or Product differentiation strategy and thus we have a focus or market niche strategy based on lower cost and a focus or market niche strategy based on differentiation. In the lower cost strategy, the firms concentrate on a narrower buyer segment and out compete rivals on the basis of lower cost of operation; while in the differentiation strategy the company concentrates on the market niche by offering the customers a product that best suits their tastes, preferences and expectations.

2.2.5 Successful implementation of the Cost leadership strategy

According to Hoskisson (2004), firms using the cost leadership strategy sell no-frills, standardized goods to the industry most typical customers. According to Porter (1980) in order to achieve substantial rewards from the cost leadership strategy, the business firm must strive to be the cost leader and be unchallenged in this position in the industry in which they operate. If the various players in the industry exhibit competition for the market leadership based on this strategy, then there will be price competition and thus the firms will start lowering prices for their products so as to attract and retain their customers. In the dairy industry in Kenya, companies come up with product market
offers like buy one get one free and this cut throat competition is only advantageous to the firms that operate at a low overall cost.

According to Thompson (1996) this strategy can be executed successfully by using superior management techniques, concentrating on cost saving opportunities, minimizing waste and not adding values which customers regard as unimportant to the product and thus they are not willing to pay for that. The cost leadership strategy is aimed at keeping costs as low as possible but the firms pursuing this strategy should offer products with features that customers find acceptable. The strategy should not interfere with the final quality of the product as this would have negative impact in the market and thus emphasizing on cost reductions while ignoring competitive features is ineffective. According to Hoskisson (2004) a company pursuing this strategy should have core competencies in the following primary activities; inbound logistic e.g. (material handling, warehousing and inventory control) and outbound logistic (e.g. collecting, storing and distributing products to customers). These activities often account for significant portions of the total cost to produce goods. Therefore the cost leaders who seek competitively valuable ways to cut down or reduce costs may opt to concentrate on the primary activities of inbound logistics and outbound logistics and the cost leaders should thoroughly examine all the support activities to find all the additional sources of potential cost reduction.

The cost leadership strategy has competitive strategies associated with it; one of the risks is that the cost leader may focus on cost reductions at the expense of trying to understand the customer perceptions of “competitive levels of differentiation”. The strategy also concerns imitations and thus competitors can easily and successfully learn to imitate the cost leader’s strategy. The other risk of this strategy is the processes the cost leader uses to produce and distribute goods could become obsolete because of innovation by its competitors and technological changes. This may allow the rivals to produce at costs that are lower than that of the original cost leader.
2.2.6 Successful Execution of the Differentiation strategy.

Differentiation is a strategy that is used by business firms to add value to a product and the customers are willing to pay for the added value. For the differentiation focus strategy to be successful the market must be capable of clear segmentation. Thompson (1997) notes that a company can pursue differentiation from many angles; special features, different tastes, spare parts availability, prestige and distinctiveness and product reliability. The possibility for successful differentiation exists in activities performed in the industry’s value chain, thus the company strives to add value at different stages differently in the production and distribution process. According to Njoroge (2006) the most common places in the value chain where differentiation can be done include purchasing and procurement activities, where high quality raw materials are procured, manufacturing activities that reduce product shelf life, allow better warranty coverage and result in more end user convenience and enhance product appearance, marketing sale and customer service activities that results in such differentiating activities as superior technical assistance to buyer, faster maintenance and repair services, more and better information provided to customers, quicker order processing, more frequent sales calls and greater customer convenience.

According to Thompson (1996) with differentiation, superior performance is achieved by serving customer needs differently. The more unique the differentiation the more sustainable the advantages accrued since differentiation must inevitably add costs which are recouped if the market is willing to pay the necessary premium prices. Harvey (1998) notes that achieving differentiation is likely to result in insulation against competitive rivalry due to securing customer loyalty. The competitive advantage that is achieved leads to increased results and sometimes the customers becomes less sensitive to high product prices. According Hoskisson (2004) there are competitive risks associated to this differentiation strategy. First the target customers may find that the price differential between the differentiator’s products and the cost leader’s product is too high that the customers opt to go for the cost leaders products which are cheaper than the differentiator’s products. The second risk is counterfeiting of the differentiation strategy by competitors in the industry. The third risk is that the customers experience
perception of the value of a product differentiation features and this occurs when competitors begin to offer products with similar features. The last risk associated with the differentiation strategy is that a firm’s means of differentiation may cease to provide values of which customers are willing to pay and this occurs due to imitation of the product by competitors and thus the customer’s perceptions changes.

2.2.7 The successful execution of the Focused strategy

Business firms choose to adopt the Focused strategy when they want their core competencies to serve the needs of a particular industry segment. According to Thompson (1996) this strategy entails concentrating on a narrow buyer segment and outcompeting rivals on the basis of lower cost. Using the Focus strategy to compete on the basis of low cost is fairly a common business approach. To successfully execute the Focus strategy, a firm needs to have products that are lower in cost than rivals while at the same time offering products of superior quality. Firms may decide to lower their marketing, distribution and advertising costs by concentrating on direct sales retailers whilst pursuing a cost advantage through focusing a specific target market. This works well when the firm can find ways to lower costs significantly by limiting its customer base to well defined buyer segment. A differentiated based-focused strategy is aimed at targeting upscale buyers who want products with world class attributes. These customers are willing to pay a premium for the finest items available because they have the money to spend to satisfy their specific tastes and preferences. The focus strategy is effective when the competitors find it costly and difficult to meet the specialized needs of the niche market and when the industry has many segments suited to its strengths and capabilities.

There are several risks associated with the Focused strategy, one is the potential for the niche buyer preferences and needs to shift towards the products attributes desired by the market as a whole. A second risk is that if the market segment becomes so attractive then the competitors start to focus it thus the market share and profits arising from this segment are shared and split among the market players. The third risk is that competitors will find effective ways to match the focused firm in serving the narrow market. Finally
the focused firm may focus on the specific niche at the expense of the bigger general market which may account for the bigger profits in the long run though it may be characterized by many competitors.

2.2.8 Integrated Cost Leadership / Differentiation Strategy

For firms to be successful they must be able to integrate both the cost leadership and differentiation strategy especially for those firms targeting the regional and global markets. The integration of the cost leadership strategy is critical in developing a competitive advantage; and this is more effective than just adopting one dominant business level strategy. The firm that successfully uses the integrated cost leadership strategy is in a better position to adapt to environmental changes, learn new skills and techniques more quickly and effectively leverage its core competencies against its rivals. In order for firms to successfully execute the integrated strategy they must be able to produce relatively differentiated products at relatively low cost.

According to Hall (1980) the most successful firms competing in low-profit potential industries were integrating the altitudes of the cost leadership and differentiation strategies. According to Lim and Kim (1988) businesses which combined multiple forms of competitive advantage out-performed businesses that were only identified with only one form of competitive advantage and thus integration of strategies is important to the performance of business organizations. Many firms have difficulties in implementing the integrated cost leadership /differentiated strategy though it is very commonly adopted and this is due to the fact that both the cost leadership and differentiation strategy emphasize on different primary and support activities. In order to achieve the low cost position, firms emphasize on product and product engineering with in frequent product changes. To achieve a differentiated position, the firms emphasize on marketing and new product Research and Development (R & D) while the product and process engineering are not emphasized. Therefore the successful implementation of the integrated cost leadership/differentiation strategy requires that business firms to carefully combine activities aimed to create a differentiation features. The organization
must have a flexible structure so as to have a flexible decision making pattern that are partially centred and partially decentralized within the organisation.

2.3 Business Performance Indicators

The performance of business firms is based on the market share growth, profit margin, financial leverage and general customer satisfaction and to what extent the set company objectives and goals are being achieved. According to Thompson (2007), a creative distinctive strategy that sets a company apart from its rivals and yields a competitive advantage is the company’s most reliable ticket for earning above average performance. Without this a company risks being outcompeted by stronger rivals and or being locked into mediocre financial performance. According to Mutuku (2005) the performance of any business organization is affected by the strategies which are put in place within that occasion and the strategies in place determine the long term performance of a business firm. According to Gichohi (2006) performance is normally measured using standards which are usually detailed expressions of strategic objectives and they are measures of acceptance performance results. The measures that are used to assess organizational performance depend on the organization and the objectives that need to be achieved. The company objectives and goals are set during the strategy formulation of the strategic management process and they can include market share, profit margin and cost reduction just to mention a few.

According to Thompson (2007) there are two distinct performance yardsticks; there are those that relate to financial management and others that relate to strategic performance. The strategic performance indicators are the outcomes that show if a company is strengthening its market standing, competitive vitality and future business prospects. Studies that have been done on organizational performance have used a variety of financial and non financial success measures. The financial measures include Profit, turnover, return on investment ROI, and inventory turnover while the non financial measures include innovativeness and market standing. According to hunger and Wheelen (1995) the most commonly used measure of corporate performance are the rate of return on investment ROI, Earnings per share EPS and the rate of return on equity
ROE. ROI is the result of dividing net income before tax by total assets while EPS is equal to the earning available to common stockholders divided by weighted average number of shares of common stock standing. ROE shows the relationship of the net income to average stockholders’ equity (Hermanson 1989). Turnover is the sales or gross revenue of the company during the financial period under review. A higher turnover implies increased volume of sales due to increased quantities sold or increased prices. The sales increase due to an increased demand of the company products which reflect growth of the company. Net profit is the realized income net of all cost, interest on depth or tax and it shows how well a company has controlled its costs in an effort to maximize the shareholders wealth. Market share price is one of the stock market based indicators which are considered most appropriate or sensitive measures as they reflect the wealth generation for shareholders. This market share price is dictated by the demand of the company shares in the stock exchange and this applies to listed companies and the higher the value of the market shares the higher the performance, thus many people would like to purchase shares and the shares value goes up. According to Johnson (2002) performance is not only linked to short term output but also to the way in which processes are managed. This research project utilized sales revenue, the net profit and the growth in the number of clients over a given period of time to measure the performance of the dairy firm.

2.3.1 The Balanced Scorecard

The Balanced Scorecard (BSC) is a mutually supportive measure of performance that aligns organizations strategy without creating a focus on one area of activity at the expense of another. The BSC combines both qualitative and quantitative measures of performance. According to Kaplan and Norton (1992) the balanced scorecard is an asset of measures that gives top mangers a fast but comprehensive view of the business and it compliments financial measures which tell the results of previous actions, with operational measures which are the drivers of future financial performance. According to Drury and Kaplan (2004) the BSC measures a business performance from four perspectives. There is the financial perspective which has the financial measures to assess how the company looks to shareholders and the measures here include ROI, Cash
flows, Organizational profitability, sales backlog and profit forecast. The customer perspective helps assess the company performance in the eyes of the customers and include customer ranking survey, customer satisfaction, market share and price index. The third perspective is the intended operational measures that are used to assess how well the company is doing on the business processes that impact on customer service. The last perspective is innovation and learning, which assess if the company is continuously improving and this measures include the revenue per employee, % revenue from new service, rate of improvement index, staff attitude survey and or number of employee suggestions.

Figure 2.2: The Balanced Scorecard
Adapted from Robert S. Kaplan and David P. Norton, 1996
2.4 Empirical Literature

2.4.1 Cost leadership Strategy and its effects on performance

A research done by Gakumo (2006) showed that most commercial banks in Kenya based their cost leadership strategy on high level of capital investment and streamlined organizational structure. The process engineering, skills and volume sale techniques were the least emphasized aspects of the cost leadership strategy applied by the commercial banks. According to Njoroge (2006) keeping lower overheads than competitors was more preferable than keeping same overheads as with the competitors, this would in turn translate to offering products at lower prices than the competitors.

A research done by Gitonga (2003) found that cost leadership is one of the strategies applied by the hospitality establishments in Nairobi, Kenya. In a study carried by Kariuki (2006) the preference of cost leadership strategy was not much, with 72% of the respondents in the hotel industry not preferring to use the strategy. That research was in the service industry, it will be of importance to compare the results of this research project in the dairy industry that deals with tangible goods. According to Chepkwony (2008) cost leadership is a strategy that is aimed at reducing the cost without altering positively or negatively the quality of the product. Business firms following this type of strategy seek competitive advantage based entirely upon achieving low cost production. According to Dulo (2006) manufacturing firms pursuing a cost leadership strategy follow policies of purchasing materials in large volumes to get low cost of inputs, mass production of a limited range of products, marketing non branded or privately branded goods or services (to avoid advertising costs), making extensive use of automation to maximize economies of scale, locating any manual production in low wages areas of the world and aggressive pricing to build and maintain market share.

Jowi (2006) conducted a study on the competitive strategies applied by Mumias sugar company and indicated that cost leadership is based on aggressive construction of large scale facilities, tight cost and overhead control, vigorous pursuit of cost reductions associated learning effects and utilization of economies of scale for discretionary expenses such as R & D, promotion or advertising. For a successful execution of the
cost leadership strategy the firm has to have sufficient financial resources, adequate process engineering skills and intense supervision of labour and low cost distribution capability. According to Mbugua (2006) organizations following the cost leadership strategy have manufacturing and material management at the centre of attention. To successfully apply the cost leadership strategy the cost leader normally ignores the different market segments and positions its products to appeal to the average customer. This is because developing a line of products tailor made to meet the needs of different market segments is very expensive. Business firms in the manufacturing industry employ Lean manufacturing principles and the five sigma management system to achieve low cost leadership strategy. These two management systems are aimed at minimizing wastage during the production process and are also aimed at producing at the lowest cost possible.

2.4.2 Differentiation Strategy and its effect on performance.

On a study done on the application of Porters generic strategies by commercial banks in Kenya, Gakumo (2006) indicates that reputation on quality and service and use of corporate image were the most used differentiation aspects used by the commercial banks as their selling points. That research was done on organization in the service industry (banking sector) thus the results for the study of the dairy sector may be different as these are two different industries. According to the above research, strength in carrying out basic research and reward on creativity among employees were the least used differentiation aspects in the banks as their selling points. According to Njoroge (2006) where differentiation is only limited to a few features like colour and size, then good management of overhead costs is very important so that the companies can compete on the prices of their products only.

According to Dulo (2006) a differentiator chooses a high level of product differentiation to gain competitive advantage; accordingly product differentiation can be achieved in three principle ways i.e. quality, innovation and responsiveness to customers. When differentiation strategy is based on responsiveness to customers, a company offers a comprehensive after sales service and product repair after the actual purchase of the
products by the customers. According to Kariuki (2006) a firm that is pursuing the differentiation strategy strives to be the service leader, quality leader, the style and technology leader, but because it is not possible for a company to be all these things, the firm cultivates the strengths that will contribute to its intended differentiation strategy approach. According to Kariuki (2003) differentiation requires strong marketing skills, superior product engineering and quality, and close coordination of R & D, production, distribution and marketing functions. According to Chepkwony (2008) the differentiation strategy aims at improving the products or the organizations image or quality by adding value or improve features of a product. Thus a differentiated product commands a higher selling price than the products that are not differentiated. Differentiation can be done through technology, design, distribution and product features.

2.4.3 Focus Strategy and its effects on performance.
According to Njoroge (2006) the focus strategy is aimed at narrowing the market segment, products and category or certain buyers. This helps firms to narrow their operations to specific markets and thus they are able to achieve competitive advantage. According to Gakumo (2006) the focus strategy has two variants; cost focus and differentiation focus. A business firm that is not pursuing any particular strategy but is choosing between various aspects of different strategies is said to be stuck in the middle and cannot show progress. A study done by Gakumo (2006) on the application of porters generic strategies on commercial banks in Kenya showed that focus strategy with 15% was the second most applied strategy. A further 40% of the banks were stuck in the middle meaning that they failed to develop their strategy in at least one of the three directions. According to Dulo (2006) the focus strategy differs from the other two strategies because it is directed towards serving the needs of a limited customer group or a specific market segment. This study by Dulo (2006) indicates that a focus strategy provides an opportunity for entrepreneurs to find and exploit a gap in the market by developing an innovative product that customers cannot do without.
A study done on the factors influencing the marketing strategies adopted by micro and small entrepreneurs in Eldoret in Kenya by Chepkwony (2008) indicates that the focus strategy is about achieving competitive advantage by concentrating on a particular market or product niche. An organization following such a strategy seeks to identify and satisfy a market niche or a certain segment of the market. Kariuki (2003) indicates that in a focus strategy the firm focuses on a limited set of customers and through either a cost leadership or differentiation strategy or a combination of both, the firms try to gain competitive advantage over their competitors pursuing either cost leadership or differentiation strategy on a broader industry wide basis. According to Jowi (2006), a firm that follows a focus strategy tries to monopolize a niche in the market place, that may fall anywhere within the area on the left side of the Porters curve. In a study done by Kariuki (2006) on the competitive strategies and performance of five star hotels in Nairobi, Kenya indicates that 21% of the respondents considered focus as a strategy very important while 58% rated this strategy as important; therefore 80% of the respondents used the focus as a strategy in their business

2.5 Conceptual Framework.

The conceptual framework of this study shows the relationship between the independent and the dependent variable. The independent variables are the strategies (competitive strategies) while the dependent variable is the performance of the company. The relationship between the independent and dependent variables is moderated by factors of environment in which the firm operate technology and the organizational structure of the firm which is determined by the size of the organization. The independent variables are cost leadership, differentiation, and focus strategy. Each of these strategies has been operationalized to yield the shown parameters. Likewise the dependent variable, performance has been operationalized to the various indicators of business performance. Environmental dynamism acts as a moderator in the relationship between business level strategy and performance.

In highly dynamic environments a cost leadership strategy is used to improve financial performance while in low dynamic environments a differentiation strategy is more
helpful in improving financial performance. In the high hostility environments a differentiation strategy leads to improved performance and in low hostility environment a cost leadership strategy will lead to better performance of the firm compared with competitors. Organizational structure moderates the relationship between competitive strategies and performance. A mechanistic structure is helpful in improving the financial performance adopting either a cost leadership or a differentiation strategy.

**Cost leadership**
- Reduce production cost
- Minimize wastage and reject products
- Minimize distribution cost
- Reduce marketing cost

**Differentiation**
- Branding of products
- New products development
- Product packaging sizes

**Focused market**
- Focus on specific market segment
- Competitor emphasis
- Expand market breadth

**Performance of the firm**
- Market share
- Sales growth
- Profit growth
- Employee satisfaction

**Moderating factors**
- Technology
- Environment
- Organizational structure.
- Political & Legal factors
- Economic & Social cultural

**Independent variables**
**Dependent variable**

**Figure 2.3: The Conceptual Framework**
Source: Author 2013
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter discusses the methodology that was used to gather data and explains the methods and tools that were used to present and analyze data to get proper information related to the subject that was studied.

3.2 Research Design
This research was a descriptive survey study that was aimed at establishing the effects of competitive strategies on performance of dairy firms in Kenya. A descriptive study is concerned with finding out what, where and how of a phenomena. According to Valdez (2009) descriptive study is concerned with the description of data and characteristics about a population, the goals of this study is acquisition of factual, accurate and systematic data that can be used in averages, frequencies and other similar calculations. Descriptive studies seldom involve experimentation as they are concerned with naturally occurring phenomena than with the observation of controlled situations.

3.3 Target Population
The population of interest consisted of dairy firms in Kenya that have been licensed by the Kenya dairy board which is the governments’ regulatory body in this industry. The population of the study constituted fifteen dairy firms in Kenya and the target population was 30 respondents; two senior managers from each of the fifteen dairy firms targeted.

3.4 Sampling Design
Due to the small population of the subject, a census survey of the dairy firms was done. Data was collected from two senior managers from each of the company and this ensured that the results collected had a true representation of the study population.
3.5 Data collection instruments.
Data was collected by the use of self administered questionnaire and the respondents from each of selected firms were supplied with questionnaires and picked later. The main instrument in the data collection was a structured questionnaire targeting senior managers.

The questionnaires consisted of structured close ended questionnaires and a few open ended questions. The close ended questions were given with a list of possible alternatives from which respondents were required to select an answer that best describes their situation. The main advantage of the closed ended questions is that they are easy to analyze since they are in an immediate usable form and are easy to administer. The open ended question usually facilitate in depth response and opinions beyond the researchers scope.

3.5.1 Instrument Validity
Validity is defined as the extent to which an instrument measures what it purports to measure. Validity requires that an instrument is reliable, but an instrument can be reliable without being valid (Carole L Kimberlin et al 2008). According to Mugenda and Mugenda (2003) validity can be defined as the accuracy and meaningful of inferences which are based on the research results. Validity is the degree to which results obtained from analysis of the data actually represent the phenomena under study. This study engaged the opinion of the experts to confirm the content validity.

3.5.2 Instrument Reliability
Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials. It is the stability of measurement and relates to the absence of random errors of measurement and demonstrates that the operations of the study such as data collection procedures would be repeated with the same results. Therefore instrument reliability is a way of ensuring that any instrument used for measuring experimental variables gives the same results every time (Martyn Shuttle
A pilot study was carried out to ensure the reliability of the instruments used in this study. In order to ensure accuracy and completeness of all entries and likely passive responses from the respondents, some measures such as assuring the respondents of the confidentiality of their responses was taken in attempt to increase the number and quality of responses.

3.5.3 Data collection procedure

Primary data was collected using the structured questionnaires which were personally administered to the respondents of the dairy firms. The method of drop and pick later was used to enable the respondents fill the questionnaires later in their free time. For the collection of primary data from the respondents, an introduction letter was presented to the organizations requesting them to assist the researcher get the information required. The data was then be edited and coded for further analysis and presentation.

3.6 Data Analysis

The statistical package for social sciences (SPSS) was used for the analysis of the data collected from the study. Descriptive statistics was used to analyze the data; these are percentages %, frequency distribution tables and other descriptive statistics such as mean and standard deviation, correlation analysis will be used to establish the relationship between the dependent and independent variables. This information was displayed by the use of bar charts, pie charts and frequency distribution tables.
CHAPTER FOUR
PRESENTATION, DISCUSSIONS AND INTERPRETATION OF RESEARCH FINDINGS

4.0 Introduction
The purpose of this study was to investigate the effects of competitive strategies on the performance of dairy firms in Kenya. The study was a census survey that targeted 30 dairy firms; 27 dairy firms responded representing a return rate of 90%. The data obtained was coded and analyzed to yield the findings presented in the sections that follow. Data was collected using self administered questionnaires and the analysis was presented in the form of tables, graphs and bar charts using Statistical Package for Social Studies (SPSS).

4.1 General Information
The first part of the questionnaire dealt with the collection of general information and the bio data of dairy firms under the census survey. The tables and discussions that follow provide the information collected.

<table>
<thead>
<tr>
<th>Year of establishment</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990 - 1994</td>
<td>2</td>
<td>7.4</td>
</tr>
<tr>
<td>1995 - 1999</td>
<td>4</td>
<td>14.8</td>
</tr>
<tr>
<td>2000 - 2004</td>
<td>5</td>
<td>18.5</td>
</tr>
<tr>
<td>2005 - 2009</td>
<td>7</td>
<td>25.9</td>
</tr>
<tr>
<td>2010 - 2013</td>
<td>3</td>
<td>11.1</td>
</tr>
<tr>
<td>No response</td>
<td>6</td>
<td>22.2</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100</td>
</tr>
</tbody>
</table>

**Table 4.1: Year of establishment**
Source: Author (Survey data 2013)
The year of establishment was sought and as shown in the Table 4.1 above, majority of the firms were established between 2005 and 2009 at 25.9% followed by (2000 - 2004) at 18.5% and (1995 - 1999) at 14.8%. The mean of the year of establishment was found to
be 2006. The majority of the firms were established between 2005 and 2009. This can be explained by the rapid growth of the dairy sector at this particular time. At this time there was a lot of milk produced by the dairy farmers and that many dairy firms came up to process the surplus milk. The second highest number of firms is seen in the period between 2000 and 2004 and this significant growth can be attributed to the general growth of the Kenya economy which grew significantly as from year 2002.

**Figure 4.1: Existence of branches**

**Source: Author (Survey data 2013)**

On the existence of branches; figure 4.1 above shows that majority of dairy firms 66.7% have branches while 33.3% of the dairy firms surveyed did not have branches on further probe figure 4.2 below reveals that majority (50%) have one branch followed by 16.6% with two, four and eight branches each.
The category of ownership and operation was sought. As shown in table below, majority of the firms were limited companies limited companies at 92.59% followed by parastatals and cooperative societies which were at 3.7% each.

**Table 4.2: Category of ownership**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited company</td>
<td>25</td>
<td>92.59</td>
</tr>
<tr>
<td>Parastatal</td>
<td>1</td>
<td>3.7</td>
</tr>
<tr>
<td>Cooperative society</td>
<td>1</td>
<td>3.7</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source: Author (Survey Data 2013)**

On the category of operations figure 4.3 below shows that majority of the dairy firms sampled were local manufacturers 77.8% followed by multinational companies at 22.2%. There were no local importers 0.0%; this can be explained by the abundant availability of the raw materials locally.
4.2 Cost Leadership Strategy

Section B of the questionnaire sought to find out the cost leadership strategies employed by dairy firms and their effects on the performance. This is in line with the first sub objective of the study which was to examine the relationship between the cost leadership strategies and the performance of dairy firms. To succeed in cost leadership strategies, firms have to scrutinize each cost creating activity and determine what factors cause the cost to be high or low. The firms then use this knowledge to keep their costs in check in order to be able to compete using the cost leadership strategy.

4.2.1 Vision and Mission statement

The two statements constitute the top management views and conclusions about the company’s direction and future product, market, customer and technology focus. Companies that have written vision and mission statements are indicative of the top
management and manager’s ability to plan and execute a given strategy to its logical conclusion. This involves a competitive strategy such as the cost leadership strategy.

The existence of vision and mission was sought. The table 4.3 below shows that majority (77.8%) of the firms had vision statements, only 22.2% did not have. On mission statements, figure 4.4 below shows that majority (85.2%) of the firms have written mission statements while 14.8% did not have.

**Table 4.3: Company written vision statement**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>21</td>
<td>77.8</td>
</tr>
<tr>
<td>No</td>
<td>6</td>
<td>22.2</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (Survey Data, 2013)

**Figure 4.4: Whether company has written mission statement**

Source: Author (Survey Data, 2013)
4.2.2 Those involved in Company Strategy Formulation

In the process of strategy making the company’s senior managers and the owners must wrestle with the issue of what path the company should take in order to attain its goals.

According to the study findings in table 4.5 managers and owners are involved in the formulation of strategy at (77.8%) while owners alone (18.5%) are involved in formulation of strategy. The involvement of owners and managers in the formulation of strategy is important for continuity (owners) and successful implementation of the cost leadership strategy by the managers. This demonstrates agreement between the owners and the managers in the following up a certain type of competitive strategy and the high likelihood of success.

Table 4.4: Those involved in the development of company strategy

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>No response</td>
<td>1</td>
<td>3.7</td>
</tr>
<tr>
<td>Owners</td>
<td>5</td>
<td>18.5</td>
</tr>
<tr>
<td>Managers and owners</td>
<td>21</td>
<td>77.8</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (Survey Data, 2013)

4.2.3 Pricing Technique

The goal of a company to pursue a cost leadership strategy is to outperform competitors by doing everything to produce goods and services at a cost lower than the competitors. Because of its lower costs the cost leader is able to charge a lower premium than its competitors and yet make the same level of profit. The pricing technique used was investigated and from the figure 4.4 below, majority (55.6%) set their prices equal to their competitors, (37%) set their prices higher than their competitors and (7.4%) set their prices lower than their competitors.
4.2.4 Involvement in own Product Manufacturing

Manufacturing and cost of production are structural cost drivers incurred by firms that are involved in their own product manufacturing. Firms can compete successfully on the cost leadership strategy when they manufacture their own products because they are able to control their cost of production. Since they do their own production, the cost leaders can be able to increase their efficiency and hence lower costs compared to its rivals. The development of distinctive competitors in manufacturing and material management is central to achieving the goal. Companies pursuing a low cost strategy may attempt to ride down the experience curve so that they can lower their manufacturing costs. Low-cost strategy usually implies tight production control and rigorous use of budgets to control the production process.

The respondents were asked whether they manufacture their own products and production system in place. The figure 4.6 below shows that all firms do own manufacturing (100%).
4.2.5 Production System used
The type of production system, whether manual or automatic raise labour efficiency questions. To compete effectively using the cost leadership strategy, labour efficiency must be high to reduce on costs and hence lower prices of the products produced. The automatic systems are highly efficient compared to the manual production systems which require employment of many labourers who in turn increase the cost of production a situation which is not desirable to those pursuing cost leadership strategies.
Table 4.6 indicates that majority (74.1%) use automatic production systems while (11.1%) use the manual system of production and 14.8% of the dairy firms use both manual and automatic production systems.

Table 4.5: Manufacture and Production System

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manual Production system</td>
<td>3</td>
<td>11.1</td>
</tr>
<tr>
<td>Automatic Production system</td>
<td>20</td>
<td>74.1</td>
</tr>
<tr>
<td>Both manual &amp; Automatic</td>
<td>4</td>
<td>14.8</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (Survey Data, 2013)

4.2.6 Frequency of production Unit Overhaul
The overhaul and servicing of production machines is important because it enhances production efficiency and thus lowers the cost of production for firms manufacturing their own products. Conversely production units that are not frequently overhauled or serviced will often breakdown and result unnecessary down time thus increasing the cost of production.
Figure 4.7 below shows that majority of the dairy firms (33.3%) overhaul their systems annually, (29.6%) semi annually, (22.2%) bi annually and (14.8%) on performance based.
4.2.7 Procurement of raw materials and other supplies.

The manufacturing and raw materials management functions are the centre of attention of a company pursuing a cost leadership strategy. Raw materials purchased in bulk form are likely to be cheaper to the company which in turn will lower the cost of production and therefore compete successfully using the cost leadership strategy. Table 4.7 below shows that (59.3%) of the firms procure their raw materials in bulk while 4.07% of them procure their raw materials both in bulk and small quantities

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulk</td>
<td>16</td>
</tr>
<tr>
<td>Both bulk &amp; small quantities</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
</tr>
</tbody>
</table>

Table 4.6: Procurement of raw materials

Source: Author (Survey Data, 2013)
This section sought to find out how firms procure their other supplies such as stationery, computers, vehicles, and other consumables. This category of supplies adds costs to the firm hence the need for the company to procure these supplies from suppliers who offer the best prices in the market. Table 4.8 shows that (66.7%) of firms procure their supplies from cheaper suppliers, (18.5%) use the open tender and (14.8%) opt to use regular and traditional supplies to get their supplies.

**Table 4.7: Procurement of other supplies**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open tender</td>
<td>5</td>
<td>18.5</td>
</tr>
<tr>
<td>Regular traditional suppliers</td>
<td>4</td>
<td>14.8</td>
</tr>
<tr>
<td>Cheaper suppliers</td>
<td>18</td>
<td>66.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Author (Survey Data, 2013)

**4.2.8: Source of raw materials**

The source of raw materials was sought for the firms that are involved in manufacturing of their own products. (85.2%) of the firms sourced their raw materials locally while (14.8%) sourced some of their raw materials locally and imported the rest.

**Table: 4.8: Source of raw materials**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local</td>
<td>23</td>
<td>85.2</td>
</tr>
<tr>
<td>Both Local &amp; imported</td>
<td>4</td>
<td>14.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Author (Survey Data, 2013)

**4.2.9 Methods of delivery of Products to Customers**

This section aimed to find out how dairy firms get their products to their customers. Some methods add cost to the firm while other methods pass on the cost to the customers and therefore reduce costs for the dairy firms. From figure 4.8 below, majority of firms
(88.9%) deliver products to their customers premise while (11.1%) of the firms have their customers collect the products from their premises.

Figure 4.7: Method of delivery of products to customers
Source: Author (Survey Data, 2013)

4.2.10: Involvement in sales & marketing and positioning of sales people
The cost of sales and marketing people are structural cost drivers that significantly increase the cost of dairy firms. Whether the sales people are centrally located or based regionally determines the levels of costs incurred in sustaining their activities. From the table 4.10 below (81.5%) of the companies were involved in the sales and marketing of their products while (18.5%) were not.

Table 4.9: Involvement in sales and marketing

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>22</td>
<td>81.5</td>
</tr>
<tr>
<td>No</td>
<td>5</td>
<td>18.5</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (Survey Data, 2013)
Table 4.10: Positioning of sales people

<table>
<thead>
<tr>
<th>Position</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Centrally</td>
<td>6</td>
<td>22.2</td>
</tr>
<tr>
<td>Regionally</td>
<td>21</td>
<td>77.8</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (Survey Data, 2013)

From table 4.11 above majority (77.8%) of the firms had their sales people placed regionally while (22.2%) had their sales and marketing people placed centrally.

4.2.11 Retention of Key employees and the Method used

Retention of key employees and the methods used to retain them was sought. Retention of key employees for a long period in the firms increases efficiency and lowers the cost of recruitment and training new employees every now and then. This in turn keeps the costs down and provides a good basis for cost leadership strategy for the concerned firm. Majority of the firms (88.9%) have a policy for retaining their key employees while (11.1%) do not have a policy for retaining their key employees.

Table 4.11: Policy on retention of key employees

<table>
<thead>
<tr>
<th>Retention</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>24</td>
<td>88.9</td>
</tr>
<tr>
<td>No</td>
<td>3</td>
<td>11.1</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (Survey Data, 2013)

From table 4.12 below majority of the companies (63%) pay their key employees higher salaries in order to retain them while (37%) of the firms surveyed retain their key employees by providing medical cover.
Table 4.12: Method of retaining key employees

<table>
<thead>
<tr>
<th>Method of Retaining</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paying higher salaries</td>
<td>17</td>
<td>63</td>
</tr>
<tr>
<td>Providing medical cover</td>
<td>10</td>
<td>37</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Author (Survey Data, 2013)

4.2.12: Introduction of New Product into the Market

Introduction of a new product into the market is part of the execution cost drivers. This section sought to know how the dairy firms introduce new products into the market. From figure 4.9 below majority of the firms (59.3%) try to be the first in the market while (25.9%) wait to gauge the reaction of the market to the new product.

Figure 4.8: Introduction of new product to the market

Source: Author (Survey Data, 2013)

4.2.13: Price discounts and Quantity discounts
Price and quantity discounts are used by firms to entice their customers where the customers pay less for the products by getting a price discount. Since cost leadership strategies rely on competing using prices, this section sought to know whether dairy firms offer this types of discounts. All firms indicated that their customers ask for price and quantity discounts and offer for both at (100%) 

Table: 4.13: Price Discounts

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>27</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Author (Survey Data, 2013)

Table 4.14: Availability of price discount

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>27</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Author (Survey Data, 2013)

Table: 4.15: Quantity discounts

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>24</td>
<td>88.9</td>
</tr>
<tr>
<td>No</td>
<td>3</td>
<td>11.1</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (Survey Data, 2013)
<table>
<thead>
<tr>
<th></th>
<th>Not at all</th>
<th>Less extent</th>
<th>Moderate extent</th>
<th>Large extent</th>
<th>Very large extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offering low priced products</td>
<td>3, (11.1%)</td>
<td>5, (18.5%)</td>
<td>13, (48%)</td>
<td>4, (14.8%)</td>
<td>2, (7.4%)</td>
</tr>
<tr>
<td>Building customer loyalty</td>
<td>0</td>
<td>3, (11.1%)</td>
<td>4, (14.8%)</td>
<td>4, (14.8%)</td>
<td>16, (59.2%)</td>
</tr>
<tr>
<td>Longer opening hours</td>
<td>20, (74.1%)</td>
<td>3, (11.1%)</td>
<td>4, (14.8%)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Offering price discounts</td>
<td>0</td>
<td>1, (3.7%)</td>
<td>3, (11.1%)</td>
<td>23, (85.2%)</td>
<td>0</td>
</tr>
<tr>
<td>Prompt product &amp; service delivery</td>
<td>0</td>
<td>3, (11.1%)</td>
<td>3, (11.1%)</td>
<td>6, (22.2%)</td>
<td>15, (55.6%)</td>
</tr>
<tr>
<td>Retention of popular staff</td>
<td>10, (37%)</td>
<td>2, (7.4%)</td>
<td>12, (44.4%)</td>
<td>3, (11.1%)</td>
<td>0</td>
</tr>
<tr>
<td>Hiring high caliber staff</td>
<td>4, (14.8%)</td>
<td>5, (18.5%)</td>
<td>12, (44.4%)</td>
<td>6, (22.2%)</td>
<td>0</td>
</tr>
</tbody>
</table>

**Source:** Author (Survey Data, 2013)
The respondents were asked on their opinion on different levels of cost leadership strategy by the use of the scale of 1 to 5. This was based on how they agreed or disagreed on the items to a very large extent and not at all scales. The highest scores were from the item “offering price discounts” (n=23, 85.2%), followed by “prompt service delivery at (n=21, 77.7%), “building customer loyalty” at (n=20, 74.1%), both items “offering low priced products” and “hiring high caliber staff” were at (n=6, 22.2%) and finally retention of popular staff (n=3, 11.1%). On the not at all and less extent scales the highest scores were from the item “longer opening hours” (n=23, 85.2%). The mean score for the cost leadership strategy was found to be 3.426 and the aggregate mean was determined as 3.759. Therefore offering price discounts was found to be the most preferred item in the cost leadership strategy while opening for long hours was the least preferred method in the cost leadership strategy.

<table>
<thead>
<tr>
<th>Table 4.17: Cost leadership Strategy Descriptive Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
</tr>
<tr>
<td>---------------------------------</td>
</tr>
<tr>
<td>Offering low priced products</td>
</tr>
<tr>
<td>Building customer loyalty</td>
</tr>
<tr>
<td>Longer opening hours</td>
</tr>
<tr>
<td>Offering price discount</td>
</tr>
<tr>
<td>Prompt service/ Delivery of products</td>
</tr>
<tr>
<td>Retention of popular staffs</td>
</tr>
<tr>
<td>Hiring high caliber staff</td>
</tr>
</tbody>
</table>

N=7 mean average= 3.5

**Source: Author (Survey Data, 2013)**

From table 4.17 above the overall Mean response rate on Cost leadership Strategy was 3.5 which is above average, this shows that most of the respondents agreed to the variables.
4.3 Differentiation Strategy

The second objective of the study was to establish the relationship between differentiation strategies and the performance of dairy firms. The respondents were asked on their opinion of different level of differentiation strategy by indicating how strongly they agreed or disagreed to the items. The scale was anchored from 1= Not at all to 5= Very large extent. The results indicating the number of respondents were as presented in table 4.17. The numbers in parentheses are the % of the respondents.

<table>
<thead>
<tr>
<th></th>
<th>Not at all</th>
<th>Less extent</th>
<th>Moderate extent</th>
<th>Large extent</th>
<th>Very large extent</th>
<th>No response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Having superior products</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>9, (33.3%)</td>
<td>18, (66.7%)</td>
<td>0</td>
</tr>
<tr>
<td>Popularity of marketing staff</td>
<td>0</td>
<td>0</td>
<td>12, (44.4%)</td>
<td>17, (63%)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Location of your premises</td>
<td>1, (3.7%)</td>
<td>5, (18.5%)</td>
<td>4, (14.8%)</td>
<td>2, (7.4%)</td>
<td>12, (44.4%)</td>
<td>3, (11.1%)</td>
</tr>
<tr>
<td>Engage in promotional activities</td>
<td>0</td>
<td>5, (18.5%)</td>
<td>7, (25.9%)</td>
<td>11, (40.9%)</td>
<td>4, (14.8%)</td>
<td>0</td>
</tr>
<tr>
<td>Offers refreshments to clients</td>
<td>26, (96.3%)</td>
<td>1, (3.7%)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Use of staff uniforms with logo offering</td>
<td>4, (14.8%)</td>
<td>8, (29.6%)</td>
<td>11, (40.7%)</td>
<td>3, (11.1%)</td>
<td>1, (3.7%)</td>
<td>0</td>
</tr>
</tbody>
</table>

Table 4.18: Differentiation strategy
The respondents were asked on their opinion of different level of differentiation strategy by indicating how strongly they agreed or disagreed to the items on the very large extent and not at all scales. The highest scores were from the item “Having superior products” (n=27, 100.0%), followed by “Popularity of marketing staff” (n=17, 63%), “Engage in promotional activities” (n=15, 55.6%), “Location of your premises” (n=13, 48.1%), “offering clients gifts” (n=5, 18.5%), On the not at all and less extent scale the highest scores were from “Offers refreshments to clients” (n=27, 100%).

Table 4.19: Differentiation strategy Descriptive Statistics

<table>
<thead>
<tr>
<th>Differentiation Strategy</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Having superior products</td>
<td>27</td>
<td>4</td>
<td>5</td>
<td>4.59</td>
<td>.501</td>
</tr>
<tr>
<td>Popularity of marketing staff</td>
<td>27</td>
<td>3</td>
<td>4</td>
<td>3.52</td>
<td>.509</td>
</tr>
<tr>
<td>Location of your premises</td>
<td>27</td>
<td>1</td>
<td>5</td>
<td>3.70</td>
<td>1.52</td>
</tr>
<tr>
<td>Engage in promotional Activities</td>
<td>27</td>
<td>2</td>
<td>5</td>
<td>3.52</td>
<td>.975</td>
</tr>
<tr>
<td>Offers refreshments to staff</td>
<td>27</td>
<td>1</td>
<td>2</td>
<td>1.41</td>
<td>.501</td>
</tr>
<tr>
<td>Use of staff uniform with company logo</td>
<td>27</td>
<td>1</td>
<td>5</td>
<td>2.30</td>
<td>1.235</td>
</tr>
<tr>
<td>Offering gifts to Clients</td>
<td>27</td>
<td>1</td>
<td>4</td>
<td>2.48</td>
<td>.849</td>
</tr>
</tbody>
</table>
The mean score for differentiation was found to be 3.07 while the aggregate mean was 3.52. The most preferred differentiation strategy method was by the dairy firms having superior products while the least preferred, in fact not used at all by the dairy firms was by offering refreshments to clients.

**4.3.1: Creation of unique image to customers**

A business firm that uses the differentiation strategy strives to differentiate itself in as many dimensions as possible. The less company products resembles its rivals the more it is protected from competitors and thus it has a wider market appeal to its customers than its competitors. From table 4.19 below, all firms (100%) do strive to create a unique image to their customers.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>27</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source: Author (Survey Data, 2013)**

4.3.2 Method of creating unique Image to customers

The method that dairy firms use to create unique image to their customers was sought. From table 4.20 below majority of the dairy firms (92.6%) use company logo (7.4%) use company colours to create a unique image.

<table>
<thead>
<tr>
<th>Method</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Through company Logo</td>
<td>25</td>
<td>92.6</td>
</tr>
<tr>
<td>Company Colours</td>
<td>2</td>
<td>7.4</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Source: Author (Survey Data, 2013)**

4.3.3 Product branding and Packaging
The main objective of the generic differentiation strategy is to achieve a competitive advantage by creating a product that is perceived to be unique by customers. Branding of products enables firms to distinguish their products from those of their competitors. Product packaging enables firms pursuing this strategy to make their products appear more unique. Table 4.21 below shows that all firms (100%) do branding of their products.

**Table 4.22: Branding of products**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>27</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (Survey Data, 2013)

![Figure 4.9 Product packaging](image)

**4.3.4 Existence of Research and Development departments**

This section sought to establish the existence of research and development department for products. A company that is implementing differentiation strategy has to concentrate on the organizational function that provides the sources of its differentiation advantage.
Differentiation of products on the basis of innovation depends on the research and development function.

**Figure 4.10: Existence of Research and Development department**

*Source: Author (Survey Data, 2013)*

**4.3.5 Existence of Sales & Marketing department**

The existence of sales and marketing department and who does the actual marketing of the company’s products was sought. Customer satisfaction is determined by the efficiency of the sales and marketing departments. From table 4.23 all the firms (100%) have sales and marketing departments.

**Table 4.23: Existence of sales and marketing departments**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>27</td>
<td>100</td>
</tr>
<tr>
<td>No</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Author (Survey Data, 2013)*

**4.3.6 Policy on product replacement and guarantee**
Firms pursuing differentiation strategy can utilize the above policy to appeal and create a unique image to its customers thus these firms should offer product guarantee and all the faulty products should be replaced so as to gain customer confidence and loyalty.

**Table 4.24: Policy on product guarantee**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>25</td>
<td>92.6</td>
</tr>
<tr>
<td>No</td>
<td>2</td>
<td>7.4</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Author (Survey Data, 2013)*

**Table 4.25: Policy on product replacement**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>All faulty products are replaced</td>
<td>27</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Author (Survey Data, 2013)*

**4.4 Focus Strategy**

The third objective of this study was to establish the relationship between the focus strategies and the performance of dairy firms in Kenya. A focus strategy concentrates on serving a particular market niche which can be defined geographically or by type of customer by segment of the product line. Geographic niche is defined by region or locality.

**4.4.1 Specialized Customers / Specialized Products**

A company pursuing the focused strategy does specializing in a way. A focused company chooses specific niches in which to compete rather than going for the whole market. Figure 4.12 below shows that majority (70.4%) firms had specialized category of customers while (29.6%) do not have any specialized category of customers.
Figure 4.11: Existence of specialized category of customers
Source: Author (Survey Data, 2013)

Figure 4.13 below shows that most of the firms (81.5%) do not have specialized products while (18.5%) have specialized category of products.

Figure 4.12: Existence of specialized Products
Source: Author (Survey Data, 2013)
From figure 4.14 (82%) of firms target general customers while only (18%) target specialized customers.

**4.4.2 Focus on specific market regions**

On market specialization, majority (63%) do not specialize on specific region while (37%) do specialize on specific areas when marketing their products.

**Table 4.26: Regional focus to market products**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>12</td>
<td>44.4</td>
</tr>
<tr>
<td>No</td>
<td>15</td>
<td>55.6</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Author (Survey Data, 2013)*

**Table 4.27: Criteria for focusing on specific markets**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>High potential areas</td>
<td>12</td>
<td>44.4</td>
</tr>
</tbody>
</table>

*Source: Author (Survey Data, 2013)*
4.5 Performance

This section sought to find out the average monthly sales, cost of operation and clients for the dairy firms and this were used as the measure of their performance. This section is used for the purpose of doing correlation analysis of the performance with the competitive strategies of cost leadership, differentiation and the focus strategy.

4.5.1 Measurement of performance

**Table 4.28: Measurement of performance**

<table>
<thead>
<tr>
<th>Sales per month</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.5 to 2.5 million</td>
<td>3</td>
<td>11.1</td>
</tr>
<tr>
<td>2.5 to 5.0 million</td>
<td>7</td>
<td>25.9</td>
</tr>
<tr>
<td>5.0 to 10 million</td>
<td>11</td>
<td>40.7</td>
</tr>
<tr>
<td>10 to 30 million</td>
<td>6</td>
<td>22.2</td>
</tr>
<tr>
<td>More than 30 million</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**Source: Author (Survey Data, 2013)**

From table 4.28 above it shows that all the dairy firms (100%) use their sales per month to measure their performance.

4.5.2 Average Monthly sales, Cost of operations and Number of Clients

The average monthly sales of the firms was sought, from the table below majority of the firms (40.7%) surveyed had monthly sales of between 5 to 10 million while (11.1%) had the lowest number of sales at 1.5 to 2.5 million.
From table 4.30 above majority of firms (48.1%) have their average costs at between 1.5 and 2.5 million shillings while only (3.7%) had the highest total average monthly cost at between 5 to 10 million shillings. Table 4.30 below shows that (44.4%) of the dairy firms serve an average of 200 clients while (3.7%) of the dairy firms serve average of 50 clients per month.

### Table 4.30: Average monthly costs

<table>
<thead>
<tr>
<th>Range</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.5-1.5 Million</td>
<td>6</td>
<td>22.2</td>
</tr>
<tr>
<td>1.5-2.5 Million</td>
<td>13</td>
<td>48.1</td>
</tr>
<tr>
<td>2.5-5 Million</td>
<td>7</td>
<td>25.9</td>
</tr>
<tr>
<td>5-10 Million</td>
<td>1</td>
<td>3.7</td>
</tr>
<tr>
<td>10-30 Million</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (Survey Data, 2013)

### Table 4.31: Average monthly clients

<table>
<thead>
<tr>
<th>Range</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>1</td>
<td>3.7</td>
</tr>
<tr>
<td>100</td>
<td>8</td>
<td>29.6</td>
</tr>
<tr>
<td>200</td>
<td>12</td>
<td>44.4</td>
</tr>
<tr>
<td>1000</td>
<td>3</td>
<td>11.1</td>
</tr>
<tr>
<td>Over 2000</td>
<td>3</td>
<td>11.1</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (Survey Data, 2013)
Table 4.32: Pearson's Correlations

<table>
<thead>
<tr>
<th></th>
<th>(Performance) Average monthly sales</th>
<th>Cost leadership strategy</th>
<th>Focus strategy</th>
<th>Differentiation strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance (Average monthly sales)</td>
<td>Pearson Correlation</td>
<td>1</td>
<td>0.260</td>
<td>0.400(*)</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.0</td>
<td>.175</td>
<td>.035</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>27</td>
<td>27</td>
<td>27</td>
</tr>
<tr>
<td>Cost leadership strategy</td>
<td>Pearson Correlation</td>
<td>0.260</td>
<td>1</td>
<td>.425(*)</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.175</td>
<td>.</td>
<td>.018</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>27</td>
<td>27</td>
<td>27</td>
</tr>
<tr>
<td>Focus strategy</td>
<td>Pearson Correlation</td>
<td>0.400(*)</td>
<td>.425(*)</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.035</td>
<td>.018</td>
<td>.</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>27</td>
<td>27</td>
<td>27</td>
</tr>
<tr>
<td>Differentiation</td>
<td>Pearson</td>
<td>0.265</td>
<td>1.000(**)</td>
<td>.450(*)</td>
</tr>
</tbody>
</table>
The Pearson’s correlation test is used to establish whether there is evidence of an association between two variables. In this research project the dependent variable is performance and the independent variables are the three competitive strategies of cost leadership, differentiation and the focus strategy. At a 0.05 significance level the correlation between the focus strategy and performance is 0.400 which indicates that this is significantly correlated. For the cost leadership and differentiation strategies the correlation is significant at the level of 0.01(2 tailed). From table 4.31 above, all the three competitive strategies have positive relationships with performance of the dairy firms. Comparing the three competitive strategies, Focus strategy has the highest casual relationship with the performance of dairy firms as compared to the Cost Leadership and the Differentiation strategies. By using the focus strategy, dairy firms can significantly increase their performance more as compared to when they use either the differentiation or the cost leadership strategies.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter gives a summary of the study findings and presents the recommendations, conclusion and areas for further research. The data was analyzed by use of SPSS to give the descriptive statistics. Frequency tables, bar charts and pie charts were used to describe the data and draw conclusions on the findings.

5.2 Summary of major findings
Dairy firms operating in Kenya are integral drivers of our agricultural based economy; there is stiff competition among the various dairy firms since they compete for the same raw materials and customers in the market. After the liberalization of the dairy sector in 1992, there has been cut throat competition in the market which has seen the collapse of some dairy firms in Kenya and business takeovers in some cases. To ensure good performance, dairy firms need to put in place sound competitive strategies that will ensure their continued existence in order to have many customers and be able to procure sufficient raw materials and other inputs. The specific objectives of this study was to first examine the relationship between cost leadership strategies and the performance of dairy firms, to establish the relationship between differentiation strategies and performance of dairy firms and lastly to establish the relationship of between focus strategies and the performance of dairy firms in Kenya.
The following summaries are made in line with the objectives of the research study. Majority of the dairy firms were established between 2005 and 2009. This can be attributed due to steady growth of Kenyan economy between this period and thus many investors set up dairy processing firms. Majority of the firms were found to be limited companies which shows that the business are privately owned and this can explained by the entry of private milk processors after the liberalization of the dairy sector in 1992. Many of the firms have been shown to have vision and mission statements and where these two documents have been designed, in majority of the cases they have been done by the owners and managers. Majority of the companies manufacture their own products and use both automated and manual production systems. This indicates that the firms are aimed at cutting down the cost of operation and pursue the cost leadership strategy in order to compete in the market. All the companies that were surveyed do offer both quantity and price discount, this is aimed at attracting customers and building on the client base.

On the most preferred cost leadership method used, majority of the respondents indicated that they offer price discount as the main method. This could indicate that dairy firms use price discounts to attract and maintain customers. The other major finding on cost leadership strategy method was that majority of dairy firms do not consider hiring high caliber staff as a viable method for competition. On the differentiation competitive strategy, the most preferred method was by having superior products, this was to enable the dairy firms increase their market share.

5.3 Conclusion
The results show that all the three competitive strategies have a positive and a significant relationship with the performance of veterinary pharmaceutical firms. The focus strategy was found to have the strongest and most significant relationship with performance at (0.04.3). Cost leadership strategy and differentiation strategy both had significant relationship with performance at (0.265) each. The results shows that all the three strategies have positive relationships to performance, however focus strategy has the
strongest relation (0.403) then Cost leadership strategy and Differentiation strategy at (0.265) each.

5.4 Recommendations
The study shows that dairy firms in Kenya should use more of the focus strategy in order to enhance their performance and this is based on the strong relationship between focus strategy at (0.403) correlation and performance of the dairy firms. This is in comparison with the cost leadership strategies and the differentiation strategy. From the findings of the study it is recommended that dairy firms should use more of the focus strategy than the other strategies of cost leadership and or differentiation. The use of a company logo is more recommended than the use of company colors. From the study findings it is also recommended that dairy firms should meet the delivery cost of their products to the clients as this is a good way of building customers loyalty. In light of the study findings it is also recommended that dairy firms offer price discounts in order to be competitive in the market and improve their performance.

Focus strategy entails the firm focusing on product segments of the customers. From the findings of the study majority of the firms focus on high potential areas to market their products. The use of company logo is recommended more than the use of company colours. Company logos are unique to particular companies whereas colours may in some other instances represent other themes. On price discounts, since majority of the firms use this method, it is recommended that dairy firms use the method to avoid losing out to other competitors in the market. Firms that use price discounts will have the price of their products better priced than their competitors.

5.5 Suggestions for further Research
The following areas are suggested for further research;

i. Analysis of the effects of competitive strategies on the performance of other industries in Kenya.

ii. A survey of the factors that influence the performance of dairy firms in Kenya.
REFERENCES


APPENDIX 1: QUESTIONNAIRE

SECTION A: COMPANY BIO DATA

1. What is the name of your company?

2. Year it was established..............................

3. Do you have branches
   a. Yes {  }
   b. No {  }

4. If yes above how many .........................and location..................

5. Category of ownership
   a. Sole {  }
   b. Partnership {  }
   c. Ltd company {  }
   d. Others {  }

6. In what category do you fall here below
   a. Local manufacturer {  }
   b. Local importer {  }
   c. Multinational Co. {  }
SECTION B: COMPETITIVE STRATEGY

i) Cost leadership strategies

7. Does your company have a written:
   a) Vision statement
      Yes {   }
      No {   }
   b) Mission statement
      Yes {   }
      No {   }

9. If yes above who is involved in the development of strategy in the company?
   a. Owners {   }
   b. Managers and owners {   }
   c. Staff representatives {   }
   d. Others {   } specify..............................................................

10. How do you set your prices?
    a) Lower than competitors {   }
    b) Equal to competitors {   }
    c) Higher than competitors {   }
    d) Using other means, specify.................................

11. Are you involved in the production of your products?
    a. Yes {   }
    b. No {   }

12. If yes above is the production
    a. Manual {   }
    b. Automatic {   }

13. If you manufacture your own products how do you procure your raw materials?
    a. In bulk {   }
    b. In small amount as required {   }
14. How do your customers get products from your company?
   a) We deliver to their premises
   b) Customers collect from our premises
   c) Use courier services and meet the cost
   d) Use courier services and customers meet the cost
   e) Use other means; specify.................................................................

15. What is the source of your raw materials?
   i) Local {   }          ii) Imported {   }

16. Are you involved in the marketing and sales of your products?
   Yes {   }                No {   }

17. If yes above are our sales persons based
   i. Centrally {   }
   ii. Regionally {   }
   iii. Others specify......................

18. If you are involved in production of your products how often do you service and overhaul your production units
   a. Semi-annually {   }
   b. Annually       {   }
   c. Bi-annually    {   }
   d. Others specify {   }..............

19. Do you have a policy of retaining your key employees?
   Yes {   }
   No {   }

20. If yes above how do you do it?
   i. Paying higher salaries {   }
   ii. Providing medical cover {   }

21. How do you procure your supplies for the company e.g. vehicles, computers, stationary and other consumables?
   a. By open tender {   }
b. From regular traditional supplies { }  
c. From cheaper suppliers { }  

22. How do you introduce new products in the market?  
   a. Try to be first in the market { }  
   b. Wait to gauge reaction of market to the new product { }  
   c. Introduce last after the others { }  

23. Do your customers ask for price discounts?  
   a. Yes { }  
   b. No { }  

24. Do you normally give price discounts?  
   a. Yes { }  
   b. No { }  

25. Do you give quantity discounts?  
   a. Yes { }  
   b. No { }  

26. To what extent do you use the following as means of attracting and retaining customers?

<table>
<thead>
<tr>
<th>Means of attracting and retaining customers</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offering low priced products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building customers loyalty</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Offering price discount</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engage in promotional activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prompt services/delivery of products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retention of popular staffs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employing high caliber staffs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Key  5-Very large extend      4-To a large extend    3-Moderate extend  
2-Less extent               1-Not at all

SECTION B: COMPETITIVE STRATEGIES  
   ii) Differentiation strategies
27. Do you strive to create a unique image of your company to your customer
   a. Yes {    }
   b. No {    }

28. If yes above, how do you create a unique image of your company
   a. Through company logo    {   }
   b. Company colours    {   }
   c. Others specify..................

29. To what extent are you following factor used as a way to distinguish your company from others

<table>
<thead>
<tr>
<th>Factor</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Having superior products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Popularity of marketing staffs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Location of your premises</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engage in promotional activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Offer refreshment to clients</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use of staff uniform with company logo</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Offering clients gifts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Key 5-Very large extend  4-To a large extend  3-Moderate extend
   2-Less extend    1-Not at all

30. How often does your company introduce new products in to the market?
    a. Every six months    {   }
    b. Annually    {   }
c. Bi-annually {   }
d. Every three years or more {   }

31. Do you brand the products you offer in the market?
   a. Yes {   }
   b. No {   }

32. If yes above are all the products branded.................

33. How does your company package its products?
   a. In different sizes to cater for all clients {   }
   a. In standard pack sizes {   }
   b. As per client request {   }

34. Do you have a research and development department for products?
   a. Yes {   }
   b. No {   }

35. Do you have R and D department for the production department?
   a. Yes {   }
   b. No {   }

36. What delivery methods are used by your company to customers?
   a. Customers collect from our promises {   }
   b. We deliver to our customers {   }
   c. We send by carriers to customers {   }

37. Do you have a sales and marketing department in your company?
   a. Yes {   }
   b. No {   }

38. Who does the marketing of your company?
   a. Marketers {   }
   b. Technical staff {   }

39. Do you offer product guarantees to your customers
   a. Yes {   }

68
b. No {   }

40. What is your policy in product replacement?
   a. No policy on product replacement {   }
   b. Faulty products are replaced {   }
   c. Faulty products are not replaced {   }

SECTION B: COMPETITIVE STRATEGY

   iii) Focus strategies

41. Do you have a special category of customers?
   a. Yes {   }
   b. No {   }

42. Do you have a specialized product range for some customers only?
   a. Yes {   }
   b. No {   }

43. Who form the majority of your customers?
   a. Specialist customers {   }
   b. General customers {   }
   c. High class customers {   }

44. Does your company focus on a specific region when marketing your products?
   a. Yes {   }
   b. No {   }

45. If yes above what category do you focus on?
   a. High potential areas {   }
   b. Low potential areas {   }
   c. Medium potential areas {   }

SECTION C: PERFORMANCE

46. How do you measure your performance?
47. What are your average monthly sales?
   a. 0.5 Million - 1.5 Million {   }
   b. 1.5 Million - 2.5 Million {   }
   c. 2.5 Million - 5.0 Million {   }
   d. 5.0 Million - 10 Million {   }
   e. 10 Million - 30 Million {   }
   f. More than 30 Million {   }

48. What is your average monthly total cost?
   a. 0.5 Million - 1.5 Million {   }
   b. 1.5 Million - 2.5 Million {   }
   c. 2.5 Million - 5.0 Million {   }
   d. 5.0 Million - 10 Million {   }
   e. 10 Million - 30 Million {   }
   f. More than 30 Million {   }

49. What is your average number of clients served per month?