MARKET DEVELOPMENT STRATEGIES AND PERFOMANCE OF MULTINATIONAL PHARMACEUTICAL COMPANIES IN KENYA

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DECLARATION

This research project is my original work and has not been presented for a degree in any other university

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This management research project has been submitted for examination with my approval as the University Supervisor

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DEDICATION

I dedicate this to my immediate family without whose inspiration and encouragement, I would not have come this far.

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ABSTRACT

Marketing strategies of multinational pharmaceutical companies are highly influenced by availability resources and regulatory framework of the industry imposed. In Kenya, the pharmaceutical industry is regulated by the Pharmacy and Poisons Board and has been characterised by high influx of companies leading to increased competition for the current market. To achieve growth in highly competitive market, these companies may opt to develop a new market for already existing products as guided by Igor Ansoff's theory of market development. This study sought to establish the strategies adopted by the twenty-two multinational pharmaceutical companies operating in Kenya, their performance and the influence of these strategies on the performance of these companies. By use of semi-structured questionnaire, a census of the twenty-two multinational pharmaceutical companies was carried out and data analysis showed that the multinational pharmaceutical companies operating in Kenya have excellent performance in employee training, customer satisfaction, sales growth and profitability. It is remarkable to note that only 22% of the multinational pharmaceutical companies were found not to be involved in market development with 45% implementing Base of the pyramid market development strategy and 9% implementing Blue ocean market development to improve their performance. To achieve best results in the new market, these multinational pharmaceutical companies have made some necessary changes which include price reduction, adding established distribution channel like KEMSA and MEDS to their regular distribution network, developing friendly means of payment for their products and to a lesser extent changing product packaging. The implemented market development strategies showed positive contribution towards sales, new customer acquisition and profitability though Base of the pyramid market development strategy showed likely hood of decreasing employee motivation and innovation. This study did not get into the details of how the identified market development strategies are implemented; it will be prudent for more studies to be done to for better understanding on how the market development strategies are implemented by the respective multinational pharmaceutical companies and advice on areas that need to be improved so as to get maximum benefit in improving performance of pharmaceutical companies.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Marketing strategy of an organization put in place both short term and long term objectives of the organization in marketing with ultimate aim of increasing the overall performance of the organization by increasing sales of its products and obtaining sustainable competitive advantage in the industry (Baker, 2008), it describes how an organization organizes its activities that includes identifying unmet needs, defining, measuring and quantifying market, selecting target market and promoting the product in the target market (Kotler, 1997). In the past, for organizations to remain competitive, the marketing strategies focused on dealing with competition in their current markets and how to keep their market share through customer retention (Hamel *et al.*, 2002). With increase in competition in the current market, for organization to continuously achieve set performance objective, there is need for them to get new market to sell their products other than relying fully on the current set of customers.

According to resource based view, organizations in similar industry could posses different resources that enables them to achieve competitive advantage over competitors (Pateraf, 2003), with both tangible and intangible assets, organization can exploit its resources to achieve competitive advantage and improve its overall performance (Wernerfelt, 1984) based on its ability to set strategy and make decision under the influenced of structure of the industry in which it operates as dictated by the theory of industrial organization (Raible, 2013). According to Igor Ansoff's theory (1957), for organizations to continuously improve its performance, the top management need to develop product and market growth strategies that are in line with the business current environmental turbulence, strategic aggressiveness, and management responsiveness. They may adopt market penetration, market development, product diversification or Product development strategy as growth strategy.

Pharmaceutical companies in Kenya are engaged in packaging, marketing and distribution of medicines within the country. Pharmaceutical companies always strive to remain competitive and continuously grow its turnover. Though pharmaceutical companies have always employed strategies that enable them retain and attract customers in the current market due to difficulty associated with targeting new customers (Ahmed and Battle, 2002), with high increase in number of registered pharmaceutical products in the country (Pharmacy and Poisons Board), customers in the current market are continuously faced with many options of product to choose from making the multinational pharmaceutical companies to face more difficulties in attracting and retaining customers which could lead to reduction of their performance. The multinational pharmaceutical companies in Kenya should therefore adopt appropriate strategies in the existing market and further develop new market for the existing products to sustain their performance (Gary, 2006)

1.1.1 Market Development Strategy

Market development involve increasing sales by selling an existing product into a new market that was originally considered non-profitable for the organization; this strategy enables organization to get more consumers for the products they currently offer. This strategy can be achieved by getting into new geographical market, creating new product dimensions like packaging, using new distribution channel or by creating a new market segment by offering different prices (Young *et al.*, 1989).

Some of the strategies that have been used in market development include Blue Ocean strategy and Base of Pyramid strategies. Kim and Mauborgne in 2005 first described

Blue Ocean strategy as a way of taping into uncontested market and avoiding unnecessary competition within the industry, it involves creating demand in a new market instead of competing for the existing demand in the market, what they referred as Red Ocean where companies viciously fight each other for the same market. (Kim and Mauborgne, 2005) Base of the Pyramid strategy involves expanding into market into low income earning economic class. This strategy involves creation consumption capacity for the poor within the economy. (Prahalad, 2005) Some researchers believe that the Base of the Pyramid approach is more productive in developing world than the Blue Ocean market development strategy though it does not give comprehensive approach on developing the desire of customers to purchase the products offered to consumers at the base of the economic pyramid (Bang and Joshi, 2008).

1.1.2. Organization Performance

Organization performance has been defined as measure of actual output achieved in comparison to the intended output; it defines how effective and efficiently an organization use its assets to generate income for the organization (Brealey, 2009). Performance measurement describes the process by which the important aspects of the organizations programs, systems, and process are evaluated. Data is collected and analyzed to reflect how its processes are working for the management the information can be used to derive decision over time.

Performance of an organization can be viewed from different dimensions depending on the views of the different stakeholders allowing value of the organization to be created from different dimension (Cameron, 1986). Each stakeholder of an organization have different perspective of what is important in his or her association with the organization like the creditors to the organization may perceive performance by the organizations ability to generate sufficient cash flow while equity investors may value expansion of resources even in the decline of cash flow, this confirms that positive performance in one dimension may actually result in negative performance in other dimensions.

In attempt to bridge the gap due to different dimensions for measuring performance Kaplan and Norton (1992) developed the balanced scorecard which they described as the best performance measuring tool that gives the management the best view of the organization performance. They suggested that measurement of organization performance should not be fully based on the financial performance since financial performance is just but indicator of some operational performance, they therefore recommended that organization performance measurement should factor in both financial and operation measures. The balanced scorecard views organization performance through four different perspectives which includes customers perspective, internal business perspective, innovation and learning perspective and financial perspective of the organization, it include measures for market share, customer satisfaction, product innovation, productivity, quality, stakeholders performance and changes in intangible assets like human resource skills and abilities.

Though the balanced scorecard forms the best measure of performance of an organization, its major weakness is that it uses operational measures that are unique to each organization making it more practical for implementation by organization insiders, and can only be used across the industry only when the variables are applicable to the entire organizations within the industry.

1.1.3. Pharmaceutical Industry in Kenya

The pharmaceutical industry in Kenya is characterised by both local companies and multinational companies that have set up their offices to market and distribute pharmaceutical products in Kenya. Some of the local companies that have been started and still operate in Kenya include Dawa Pharmaceuticals, laboratory and Allied Ltd, and Sphinx Pharmaceuticals.

This industry plays important role in importing, packaging and distribution of medicine. Currently, Kenya's pharmaceutical industry is ranked as the largest producer of pharmaceutical products in the Common Market for Eastern and Southern Africa (COMESA) region, supplying about 50% of the regions' market. According to Kenya pharmaceutical health report 2010, this industry has continuously experienced rapid growth due to increased expenditure on healthcare and growing countries economy. By end of 2014, the industry was reported to be worth Shs 33.5 billion (Luoma, *et al., 2010*).

The three levels of distribution channel of products in the pharmaceutical industry which includes the importers or manufacturers, distributors and retailers plays role in delivering health care products to the consumers. In collaboration with other healthcare service providers like doctors, this industry has immensely contributed to the improvement of healthcare access in the country (Luoma, *et al., 2010*).

Kenya has very high concentration of healthcare providers in urban areas than rural area with access to health facilities at urban areas being 70% in comparison to 30% in rural areas (Kenya National Bureau of Statistics, 2010). This can be associated to the infrastructural development and higher buying power of citizens in urban areas than rural areas. With devolution of health services to the county government, this statistic is likely to change with improved access to healthcare services and effective distribution of drugs by pharmaceutical companies to rural Kenya.

In 2010, United Nations Industrial Development Organization, UNIDO, estimated that there were 9000 pharmaceutical products registered in Kenya. This number has since tremendously grown and at the end of 2015, there were over 15000 registered pharmaceutical products (Pharmacy and Poisons Board). This increase in pharmaceutical products has been associated with inflow of more companies into the country leading to increase in competition for the existing market.

1.1.4. Multinational Pharmaceutical Companies in Kenya

Multinational corporations have been described as organizations that control production, marketing or sale of goods and services in one or more countries other than their home country. Like organizations operating in other industries, pharmaceutical companies have managed to expand their operations beyond the borders of their mother companies and some have steadily grown in many countries all over the world.

With liberalization of pharmaceutical market, Kenya has faced high influx of Multinational pharmaceutical companies from India, Europe and America. Some of these companies especially from India are popularly known for marketing of generic drugs in Kenya while those from Europe and America do market mostly original pharmaceutical products. Some of the prominent multinational pharmaceutical companies in Kenya include Sun Pharma, Ella Lilly, Novartis, Novo Nordisk, Bayer, Merk Serono, Pfizer, Menarini, AstraZeneca amongst others (Pharmacy and Poisons Board)

1.2. Research Problem

Each organization has in its possession unique resources that enable it to achieve different competitive advantage (Wernerfelt, 1984). Guided by the structure of the industry, internal strategies and government regulations (Raible, 2013), strategy for selling an existing product in new market by either developing new market segments or reaching into new geographical regions (Igor, 1957) can improve performance of organization in terms of financials, internal business process, customer satisfaction and learning and innovation capacity of staff (Kaplan and David, 1992).

The Kenyan pharmaceutical industry has faced high influx of multinational pharmaceutical companies (Pharmacy and Poisons Board) which has led to increase in competition in the current market. To achieve increased growth in performance, the multinational pharmaceutical companies in Kenya need to develop appropriate market development strategies for the already existing products, the management of these companies should therefore be in position to choose, develop and implement proven market development strategies for the Kenyan pharmaceutical market.

Numerous studies have been done both locally and internationally on marketing strategies employed in the pharmaceutical industry to achieve growth, however these studies have been focusing on strategies that enable largest market share holders retain their customers in the market by achieving highest sales volume. For instance, a study done on the communication mix in the pharmaceutical industry in Pakistan by Raheem *et al* (2014) found that the main aim of personal selling, sales promotion, public relations and advertising in to increase market share in the current market. Similarly, study done locally by Mohamed (2012) found that pharmaceutical companies implement product, price and place strategies aimed at obtaining the highest market share in the existing market just as Nyamai (2014) found that pharmaceutical companies adopted strategies like pricing, positioning, product branding and market segmentation in bid to obtain and retain the highest market share. Studies on market development strategies have been done on other industries, for example study done in India found that Unilever Company through its subsidiary Hindustan Lever Limited has successfully managed to develop market at the base of the pyramid by using variety of partners to distribute its products in the new market (Ellison *et al*., 2002).

Arising from the above studies, this study sought to determine effectiveness of various market development strategies employed by multinational pharmaceutical companies in Kenya that has been implemented and achieved the best result in terms of organization performance and growth. The study was guided by the following question: How effective are the market development strategies adopted by multinational pharmaceutical companies in Kenya?

1.3. Objectives of the Study

The research objectives ware:

i. To establish market development strategies employed by the multinational pharmaceutical companies in Kenya.

ii. To determine the influence of the market development strategies adopted on the performance of multinational pharmaceutical companies in Kenya.

1.4. Value of the Study

The findings in this research can enable the management of different pharmaceutical companies operating in Kenya or those intending to move their operations into the country to identify and adopt appropriate strategy for market development for the existing products. The management of the organizations are being enabled to choose cost effective strategy that gives desired result in terms of performance improvement within the regulatory framework of Kenya’s pharmaceutical industry.

The government through the Pharmacy and Poisons board can effectively control and monitor the various strategies adopted by the pharmaceutical companies. The research findings enable the pharmacy and poisons board to develop appropriate policies that intend to control access to new markets by the pharmaceutical companies with view of protecting the interests of Kenyan citizens.

For scholars, the research findings form basis upon further research on the field of pharmaceutical marketing. The research enables the researchers to identify necessary resources which may be required and research gaps for the future related studies. The scholars and researchers who would like to carry out more studies and debate on market development strategies employed by the multinational pharmaceutical companies in Kenya can find this study very useful.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

This chapter outlines the concept of market development strategies which includes “Blue ocean strategy and Base of the Pyramid strategy, and performance of multinational pharmaceutical companies in relation to market development strategies.

2.2. Theoretical Foundation

For organization to effectively increase its performance it needs to adopt product and market growth strategy that can be easily supported and managed with the available resources within the organization and the confines of the industrial structure. As such, the study will be anchored by the Igor Ansoff’s theory of product and market development, resource based theory and industrial organization theory.

2.2.1. Igor Ansoff’s Theory

Igor (1957) posited that for an organization to increase its performance, it needs to achieve products and market growth through four different strategies which depends on whether or not a company or product is already present in the market. He considered two dimensions; one dimension is based on the product being either new or existing while the other dimension consider market as new or existing. The four main growth strategies include market penetration, product development, product diversification and market development.

The growth strategies pose different levels of risks and need for investment. Market penetration which involves selling more of existing products in already exiting market possess the lowest risk (Shroder, 2015), this strategy is aimed at achieving market dominance through gaining competitor’s customers, attracting non-users and having the current users buy more (Gardetti,2005). Organization could also opt to introduce new products in an already existing market by developing products that are closely related to the existing products, developing totally new products to match existing needs of customers or a product that rejuvenates the usage of existing product (Free-Management-e-Books, 2016) as a strategy, this strategy was described by Igor (1957) as product development strategy. Diversification strategy proposed by Igor (1957) involves developing a totally new product and selling it in a new market that the organization was not operating in, while market development entails selling the existing product into a new market. Both diversification and product development pose the highest risk and are the least employed growth strategies (Shroder, 2015).

2.2.2. Resource Based Theory

Wernerfelt (1984) defined company's resource as both tangible and intangible assets which are tied semi-permanently to the firm. The ability of an organization to exploit the resources that the business has enhances its competitive advantage (Wernerfelt, 1984). According to Petaraf and Barney (2003) organizations in a similar industry possess different amount of resources implying that some organization are more skilled to achieve certain objectives and capabilities than others just because they possess unique resources, furthermore if other organizations can't imitate these resources, then the controlling organization is more likely to generate more competitive advantage over others in the industry (Petaraf and Barney, 2003).

Organizations market based resources relates to those asset and capabilities that are either used in building brands, relationships, innovation or knowledge. These assets form critical base in influencing company's performance (Srivastava *et al.*, 1998).

2.2.3 Industrial Organization Theory

The concept of industrial organization theory was described by Tirole (1988) as the structure of a market and how the market function (Tirole, 1988). It describes how the structure of the market impacts its influence on the organization strategy and decision making process (Raible, 2013). Organizations conducts its business under the influence of the market which can be viewed in terms of overall industrial organization in terms of competition and the number of firms in the industry, public policy like the economic regulations governing the industry within the country and the internal firm structure and strategy (Richard, 1989).

2.3. Market Development Strategies

According to Ansoff (1957), market development involves selling an already existing product into a market that was not buying the product before; the strategy can involve selling the product to different customer segment, selling the product in a new area or regions in which the product was not being sold or even in markets out of the country.

The strategies each organization put in place to enter and operate in the new market plays important role in the ability of the organization to maintain its dominance in the market. Some of the strategies used by organization to sustain the first mover advantage include creation of high switching costs. With existence of one product in the market, a customer adopts to the characteristics of the product and the pioneer company finding it difficult to change to other brands that later come into the market, this can be achieved by offering high quality products that meet the needs of customers (Wernerfelt, 1985). Companies entering a market that had not been explored needs to create appropriate distribution channel, appropriate product packaging, pricing.

Organization entering into the market that has no competition makes it a first entrant into that market. In many cases, being first entrant into a market gives organization opportunity to enjoy first mover advantage. This provides the organizations with superior brand recognition and customer loyalty which provides sustained market-share advantage over later entrants; this rewards them with huge profits and monopoly-like status in the market. With later entrants into the market by competitors, first movers may suffer loss of market share in situations brought about by the first mover disadvantage (Marvin, 1988).

Some of the first mover disadvantage includes "free-rider effect" in which late entrant ride on the investment of pioneers in areas like consumer education, infrastructure developments and personnel training. This reduces the cost of operations for the late entrants but reduce the profitability of the pioneer organization. Market uncertainty puts the first movers at the risk of dealing with the unknowns thereby increasing the risks of operating in the new market. In most cases, late entrants have been in position to study and analyze behaviour of consumers in an existing market giving them advantages of identifying and targeting appropriate customers in the market depending on their needs, a disadvantage that the pioneer company have to cope with (Marvin, 1988).

There are two major concepts used by the multinational organization to develop market for their products and increase overall performance in the emerging markets, these concepts include the Bottom of the Pyramid (BOP) strategy that was developed by Prahalad (2004) and the blue ocean strategy developed by Kim and Mauborgne (2005).

2.3.1. Bottom of the Pyramid Strategy

Bottom of the pyramid (BOP) is a socioeconomic concept that groups world poorest into poorly served and unprotected market which is made up of the largest population size of more than four billion who live with less than $1.25 a day. This market is concentrated more in Africa, Asia and Latin America (Ruvinsky, 2011). Though the size of this market has not been fully agreed on, there are various researches with varying opinions. Prahalad (2004) believes that this market has between 4 to 5 billion people with market size of more than $ 13 trillion all over the world while Karnani (2007) estimate this market to be $ 1.2 trillion. Though the two researchers differ widely in terms of market size, they make a common agreement that the poor should be involved in economic activity and the market at the base of the pyramid can form a good opportunity for multinational companies to grow their sales and generally improve their performance.

Though the population at the BOP is majorly composed of poor people, in most countries they do have access to basic needs like food and shelter. The major challenges existing in this market is mostly associated with infrastructural developments that reduce accessibility and storage of products and limited disposable income of the population. This could pose a lot of challenges for regular products packaging and prices offered by multinational companies at their current well developed market. Poor acceptability of new products due to cultural, societal, political, or religious influence also poses major challenges for to the multinational companies entering this market (Voveryte, J. 2011). Accessibility of the market at the base of the pyramid therefore requires different strategies from those used in the regular market in which the multinational companies operate.

Multinational entering the market at the BOP need to price their products at the lowest possible price to give a very thin profit margin. This will require the multinational company to improve performance by achieving high volumes of unit sales to make up for the low profit margin (Prahalad, 2004). To achieve high unit sales volume, there is need for the companies to develop efficient distribution channel which could increase the cost of operation for the company. To reduce the costs of distribution and enhance accessibility of products in this market, Voveryte (2011) noted that companies involved local entrepreneurs in the distribution and retailing of products in the market. The multinational companies may enter the market by first building linkages with local market structures such as local SMEs which are better suited to cater for the BOP market due to their knowledge and local networks, this suggest the multinational company is better of engaging in the business to business marketing and distribution (Karnani, 2007).

Due to low disposable income, the market at the BOP is associated with infrequent purchases of products at the regular markets. This therefore requires these companies to design products that are in line with the cash flow of customers who are mostly paid on daily basis. Unilever PLC in India has managed to offer products suitable for the market by offering their products in small packages which allows the consumers to purchase the products within their daily budgets. To increase acceptability of products, companies may have to make more modifications to address market resistance by either eliminating unnecessary features or creating additional features that encourage consumption (Anderson and Markides, 2007). Acceptance of the products and continuous use can be enhanced by conducting regular consumer education; these create aspirations and pass knowledge about products.

2.3.2 Blue Ocean Strategy

Kim and Mauborgne (2005) described business environment as consisting two distinct market spaces which are Red Ocean and Blue Ocean. Red Ocean is described as a market space that is in existence for the companies in the industry, well understood by each of the companies and rules for competition are well set. In the red ocean, companies compete each other for the existing market share and growth rate in this market is due to change in customer loyalty attributed to the effectiveness of marketing strategy and as the number of competitors rise, the prospect growth and profits declines while Blue Ocean is a market with no competitors, it provides opportunity for fast and rapid growth for a company. In the blue ocean, a company creates primary demand for the products in the industry (Kim and Mauborgne, 2005).

The principles that guide blue ocean strategy as described by Kim and Mauborgne (2005) includes reconstructing the current market boundaries, focusing on the big picture not the numbers, reaching beyond the current demand, getting the strategic sequence right, overcoming the organization hurdles and building execution plan (Kim and Mauborgne, 2005).

Reconstruction of current market boundaries could involve the management looking across alternative industries that the company can easily enter with the current product offered, looking into other companies within the industry that are pursuing similar strategy and trying to understand factors that influence customers decision to trade up or down from one group to another, looking into another group of target customers apart from those who are currently involved directly or indirectly in the buying decision within the industry, offering complementary products or services relation to the current product being offered, develop new functional or emotional appeal to the new targeted buyers and always strive to change with time (Kim and Mauborgne, 2005).

In most cases, strategic planning involves drawing a workable plan within the confines of the company that the organization operates in, it involves setting up strategies to drive up the value of sales for the company, this confines the company within the red ocean. Getting into blue ocean require the management to look into the bigger picture and not the numbers that they target to achieve. This can be achieved by comparing the business with competitors instead of concentrating on the internal operations and make changes on the strategy where it's required, having the company management see in the field how the customers use or don't use their products and finally drawing a plan based on the field observations by the management (Kim and Mauborgne, 2005).

To maximise on the returns of the company, there is need for the management to develop strategies that shall enable the organization meet the needs of non-customers by focusing on the common things that both non-customers and customers could buy thereby unlocking demand on the non-customers. The management finally needs to develop system that enhance the implementation of blue ocean strategy by creating the right sequence of events, dealing with the hurdles that exist within the company and finally executing the strategy to oversee the development of new market for the existing product (Kim and Mauborgne, 2005).

2.4 Evaluation of Organization Performance

Performance of an organization describes how effective and efficiently an organization carry its core business operations (McCann, 2004). Depending on the interest of different stakeholders, organization performance can be viewed from different dimensions allowing value of the organization to be created from varying dimensions, positive performance in one dimension can mean negative performance in other dimension like creditors to the organization value performance of the organization as ability to generate cash flow and preserve worth of collateral while for equity investor, performance means ability of the organization to expand its resources even as cash flow declines (Cameron, 1986).

Robinson (1995) described ten different measures of performance which includes changes in sales, sales level, and return on sales, return on invested capital, return on equity, and return on assets, net profit, and earnings before interest and taxes, earning multiples and shareholders' value. The most frequently used measure of performance concentrates on changes on sales, organizational survival, profitability and decline or increase in the number of employees. (Brush *et al.*, 1992). Researchers involved in analysis of organization performance over the years have used different dimensions of performance without coming into agreement on what dimension represent the overall performance of organization.

Different perspectives of measuring organization performance include accounting, balanced scorecard, strategic management and entrepreneurship. Though accounting perspective of analysing performance has been used in many situations, it does not provide the management opportunity to learn about the future opportunity that the organization or the industry has created, its accepted principles uses past financial data to derive financial reports that are accurate and comparable among the organization within the industry and provide information about the value creation and retention realized in the past financial period (Robert, 2004).

Strategic management was described by Lawrence and William (1988) as chain of decisions and actions that enable the organization to meet its objectives; it involves determining the objectives of the organization and then formulating the means of achieving the set objectives. Measuring organization performance from the perspective of strategic management involves evaluation of the organization performance based on the set objectives and how the management coordinated the activities within the organization to meet the set objective within the stipulated time period (Robert, 2004). Characteristics of effective strategic management includes setting clear directions with purpose, integrating operating budget and profit plan, creation of atmosphere that enhance team spirit, continuous monitoring of progress towards the set objectives with revision of plans and programs as required and continuous monitoring of both internal and external environment (Alli, 1992). This robust nature of evaluating performance enables the management of the organization to continuously monitor and improve the general performance of the company.

Antoncic and Hisrich (2004) developed corporate entrepreneurship measurement scale that measures the business performance by selected items like new business ventures and product innovation. Based on the scale, overall performance of the organization can be determined by measuring growth and profitability in both absolute and relative terms; the absolute growth items include growth in the number of employees and sales while the relative growth items are growth in the market share. Developed by Kaplan and Norton (1992), the "balanced Scorecard" tool for measuring performance of organization allows the management to look at the business organization from four different perspectives; financial perspective, internal business perspective, customer perspective and learning and innovation perspective. The balanced scorecard offer the ability to bring together the different elements of company's competitive strategies like becoming customer oriented, shortening time for response towards environmental changes, improving products quality, creation of cohesive team that work together, reducing time required to bring new product into the market into a single management report. It also guards the managers against sub optimization by forcing them to consider all important operational measures of the organization (Kaplan and Norton, 1992).

The customer perspective describes the value that the organization uses to satisfy customer needs in the market and generate more revenue from sales. The balanced scorecard enables the management to align the overall strategy of the organization that enables it to acquire new customers, satisfy and retain existing customers, and generate growth with the existing customers. In a market, the major concerns for customers include time, quality, performance and service, and cost. The balanced scorecard enables the management to incorporated goals for time, quality, and performance and service into specific measures enabling the company to evaluate its performance through the eyes of customers either by using internal recourse or by hiring third parties to perform the evaluation exercise. Measures used to evaluate performance of the organization as per the customers perspective are market share controlled by the organization, customer retention rate, new customer acquisition, customer satisfaction and profitability per customer (Kaplan and Norton, 1992).

According to the balanced scorecard, internal business perspective requires the manager to indentify the important processes within the value chain that enable the organization to meet the needs of stakeholders (Kaplan and Norton, 1992). Internal business processes can be grouped into operations, customer management, Innovation, and Regulatory and social functions. To achieve best internal performance, organization should focus their energy on business processes that have the greatest impact on customer satisfaction, achieve organization financial objectives and core competencies of the organization (Erica, 2008).

The ability of company to learn, improve and innovate their products enable the organization to continuously improve their performance in the market that is characterised by changing needs of customers and improve the overall operating efficiency of the organization. Learning and growth focuses on the people working for the organization, the organization system and the organization procedures (Kaplan and Norton, 1992). Learning, improvement and innovation performance of organization can be evaluated by monitoring people through employee satisfaction, employee retention, employee training and employee skills, system performance monitored through availability of accurate information to the front-line employees, ability to introduce new products in the market, customer value creation and penetration of new market while procedures can be evaluated through alignment of employee incentives with the overall performance and overall improvement of critical success factors (Erica, 2008).

Financial perspective of organization performance is concerned with monitoring whether the organization strategy is meeting desired contribution towards the organizations cash flow. The strategies used by many companies to increase their financial performance include cost reduction or productivity improvement, asset utilization and revenue growth (Kaplan and Norton, 1992). Some of the measures used to evaluate financial performance of an organization are cash flow, sales growth, market share, return on capital employed and additional economic value created (Erica, 2008).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

This chapter describes the methodology that will be used to address the research problem. The chapter describes the research design, context of the study, target population, the sample and the sampling procedures, instruments, validity and reliability of instruments, data collection and analysis procedures that shall be used.

3.2. Research Design

Research design describes the method of carrying out a study. It guides the researcher in collecting, analysing and interpreting data collected on the population of study (Orotho, 2003). The study will adopt descriptive cross-sectional survey design. Descriptive design allows the researcher to obtain information and give a description of current phenomenon describing what exists with reference to situation. This enables one to obtain accurate profile of person, event or place (Cooper and Schindler, 2008). Cross-sectional survey enable researcher to collect data from different pharmaceutical companies over short period of time while offering greater control over measurements to maximizes completeness of data and usually requires no follow ups (Mugenda, 2003).

3.3. Population of Study

Kombo and Tromp (2006) described the population of study in research as a group of elements or persons with at least an element in common. From this group, sample shall be picked as a representative of the whole group for analysis to give information on the characteristics of the population being studied.

The population of study comprised all multinational pharmaceutical companies operating in Kenya. With population size of twenty-two multinational pharmaceutical companies identified from pharmaceutical directory as at 20th May 2016, a census of these multinational pharmaceutical companies was carried out.

3.4. Data Collection

The study will have relied on primary data that was collected by administering semi-structured questionnaire with some closed ended questions being presented on a Likert scale with rating on the scale being 1 (lowest or least) to 5 (highest or most). In using questionnaires, the researcher knew how each question was to be analysed. Though closed ended questions are easy to administer and always saves time, the open ended question has been found to stimulate ones thinking and allow respondents to give more insight into their feelings, thinking and even decisions (Mugenda, 2003). Likert scale allows the respondents to provide their opinion both in direction (positive or negative) or intensity (degree of disagreement or agreement). The researcher made personal contact with managers and field representatives of the multinational pharmaceutical companies to administer questionnaire either within the field or in their offices.

3.5. Validity and Reliability

Reliability describes the degree to which the results obtained in research are consistent over time and the ability to reproduce similar result using the same methodology while validity describes if the research method fully measures what it is intended to measure (Guion, 2002).

To ensure validity and viability, the researcher developed questionnaire in line with the goal and objective of the study under the supervision and guidance of the highly experienced professor of marketing at the University of Nairobi. The questionnaire was pretested on a small number of respondents selected on judgement basis before the actual data collection was done.

3.6. Data Analysis

Data analysis describes how the collected data is brought to order, structured and appropriate interpretation is derived (Catherine and Rossman, 2006). Using Statistical Package for social Sciences (SPSS) software, data obtained was coded and analysed using descriptive statistics which include frequency distribution, mean scores percentages and standard deviation. Descriptive statistics data analysis enabled the researcher to meaningfully describe the data with numerical indices. The data collected from questionnaire was systematically organized to facilitate descriptive analysis in order to obtain relationship between different market development strategies and performance of the multinational pharmaceutical companies.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1. Introduction

This chapter summarizes the major finding of this study. The study sought to identify market development strategies employed by the multinational pharmaceutical companies in Kenya and determine the influence of these strategies on the performance of the multinational pharmaceutical companies. This chapter shall also provide on suitable market development strategies to be adopted by the management of different pharmaceutical companies in Kenya, give direction for further studies and give recommendations for policy making by the Kenyan government on marketing of pharmaceutical products. The questionnaires were semi-structured with both some closed questions being presented on Likert scale and were administered by the researcher.

A Total of twenty-two respondents working for twenty-two multinational pharmaceutical companies were targeted. All the respondents responded positively and questionnaires were administered. All the twenty-two companies had their representatives involved in the study.

4.2. Demographic Characteristics

The researcher sought to know the demographic characteristics of the respondents relating to their experience in pharmaceutical marketing and their position in their companies they work in.

4.2.1 Years in Pharmaceutical Marketing

This data was to help the researcher know the level experience in terms of pharmaceutical marketing.

Table 4.1: Experience in Pharmaceutical Marketing

	N	Mean
Years worked in pharmaceutical industry	22	6.1364
Valid N (listwise)	22	

Source: Field data (2016)

The experience of respondents ranged from 1 year to 11 years in pharmaceutical marketing with average years of experience being 6.13 years indicating that the respondents in this study had high experience and would therefore were in position to give clear and elaborate answers to the questions on the questionnaire.

4.2.2 Position of the Respondents

The researcher had intended to administer the questionnaire to both manager and sales representative.

Table 4.2: Position of the Respondents

		Frequency	Percent
Valid	Manager	5	22.7
	Sales	17	77.3
	Total	22	100.0

Source: Field work (2016)

From the data obtained, more sales representatives from different companies responded positively in comparison to the managers. Out of 22 respondents, there were 5 managers which made up to 22.7% of respondents in comparison to 17 sales representatives which was 77.3% of the respondents.

4.3. Performance of Multinational Pharmaceutical Companies

The performance of the multinational pharmaceutical companies was analyses based on employee training, customer satisfaction, sales growth, employee innovation, new customer acquisition, sales, internal operation efficiency, employee retention, employee performance and overall profitability of the organization. The data obtained was as below.

Table 4.3: Performance of Multinational Pharmaceutical Companies

	N	Mean	Std. Deviation
Score on employee training	22	3.81	1.708
Score on customer satisfaction	22	3.59	1.593
Score on sales growth	22	3.54	1.010
Score on employee innovation	22	3.50	1.224
Score on new customer acquisition	22	3.45	1.503
Score sales	22	3.40	.854
Score operation efficiency	22	3.22	1.659
Score employee retention	22	3.09	1.150
Score employee performance	22	3.04	1.214
Score profitability	22	2.81	1.097
Valid N (listwise)	22		

Source: Field work (2016)

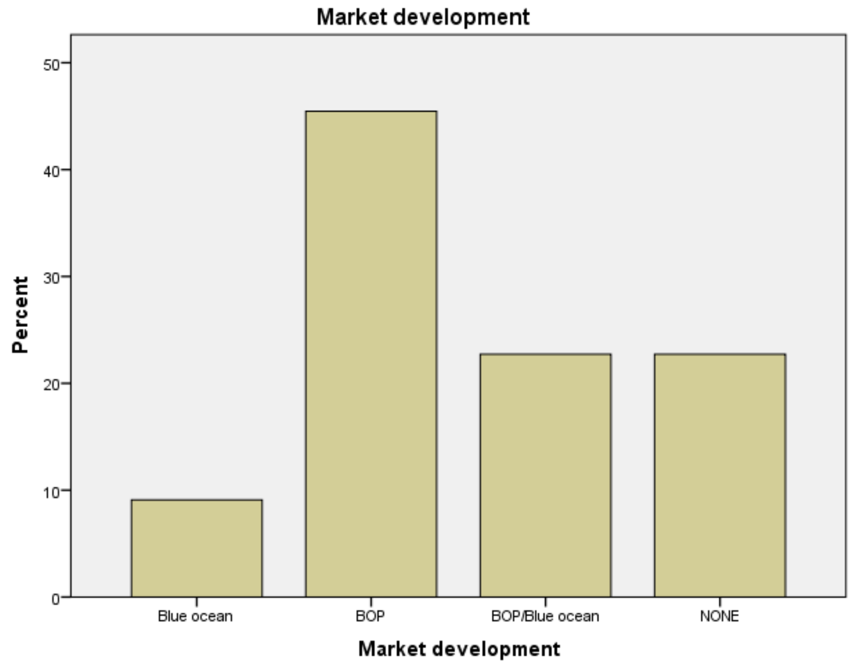
The result showed that according to the respondents involved in the study, most multinational pharmaceutical companies have the best performance measure in employee training (Mean 3.8; S.D 1.708) in comparison to other measures of performance used in the study with mean range of 2.8 to 3.5. The measure of performance used in the study represents the four different perspective of evaluating performance based on the balanced score card.

4.4. Market Development Strategies

4.4.1 Identified Market Development Strategies

The researcher sought to identify different market development strategies employed by multinational pharmaceutical companies in Kenya. Two different strategies were identified and were found to be employed.

Figure 4.1: Market Development Strategies



Source: Field work (2016)

The data showed that more companies are involved in Base of the pyramid market development strategies (45%), those involved in blue ocean and base of pyramid were (22%) which is equal to those not engaged in any market development strategies while those engaged in Blue Ocean alone were the least (9%). This indicates that the most prominent market development strategy among the multinational pharmaceutical companies operating in Kenya is the blue ocean strategy.

4.4.2 Changes to Serve New Market

The researcher sought to determine the extent of changes employed by the multinational pharmaceutical to suite the new market for pharmaceutical products based on the price, distribution channel, product packaging and means of payment in a score of 1 to 5 (1 for no extent and 5 for very great extent).

Table 4.5: Extent of Changes on Products

	N	Mean	Std. Deviation
Price change	22	3.95	1.396
Packaging change	22	3.86	1.206
Distribution channel change	22	2.81	.795
Payment mode change	22	2.31	1.644
Valid N (listwise)	22		

Source: Field data (2016)

The most changed factor is price (Mean 3.95; SD 1.395) followed by packaging, distribution channel and payment mode with overall mean range being 2.31 to 3.95 indicating that most multinational pharmaceutical companies made necessary adjustments to serve new customers as advised by Prahalad (2004).

4.4.3. Effect of Market Development Strategies on Performance

The effect of market development strategies on the performance of multinational pharmaceutical companies were determined based on the view of the respondents through correlations analysis.

Table 4.6: Correlation of Market Development and Performance

Correlations

		BOP	Blue ocean	Sales	new customer	employee motivation	employee innovation	sales growth	profitability
BOP Involvement	Pearson Correlation	1							
	Sig. (2-tailed)								
	N	22							
Blue ocean Involve	Pearson Correlation	.164	1						
	Sig. (2-tailed)	.362							
	N	22	22						
Sales	Pearson Correlation	.069	.510**	1					
	Sig. (2-tailed)	.703	.002						
	N	22	22	22					
new customer	Pearson Correlation	.179	-.294	.555**	1				
	Sig. (2-tailed)	.319	.097	.001					
	N	22	22	22	22				
employee motivation	Pearson Correlation	-.457**	-.002	.278	.028	1			
	Sig. (2-tailed)	.008	.990	.117	.876				
	N	22	22	22	22	22			
employee innovation	Pearson Correlation	-.336	.284	.134	-.098	.758**	1		
	Sig. (2-tailed)	.056	.109	.458	.587	.000			
	N	22	22	22	22	22	22		
sales growth	Pearson Correlation	.084	.057	.261	.098	.842**	.687**	1	
	Sig. (2-tailed)	.642	.752	.143	.589	.000	.000		
	N	22	22	22	22	22	22	22	
Profitability	Pearson Correlation	.378*	.114	.489**	.125	.325	-.551**	.864**	1
	Sig. (2-tailed)	.039	.550	.006	.510	.080	.002	.000	
	N	22	22	22	22	22	22	22	22

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

The data showed that there is strong positive correlation for base of pyramid strategy and profitability (r=0.378 p=0.039), Blue ocean strategy is positively correlated and sales (r=0.51 p=0.002), employee motivation and sales growth (r=0.842 p=0.000), employee innovation and employee motivation (r=0.758 p=0.000), and sales growth and profitability (r=0.864 p=0.000). All the significance values were positive and less than 0.05 at 95% level of confidence. The study finding indicate strong negative correlation between base of the pyramid market development strategy and employee motivation (r=0.457 p=0.008), and between employee innovation and profitability (r=0.551 p=0.002).

4.5 Discussion

The findings of this study indicates that multinational pharmaceutical companies based in Kenya are achieving best performance based on specific measures of performance that represents the four different view of measuring performance based on the balance score card. The best performance is achieved on employee training with mean score of 3.8 out of 5 (1 for poor and 5 for excellent). Equally other factors of evaluating performance like customer satisfaction, annual sales growth, employee innovation, new customer acquisition sales, operation efficiency, employee retention, performance and overall profitability performed well with average mean score ranging from 2.8 to 3.59 though none of the companies score excellent or poor performance in any measure of performance used in the study.

To boost their performance, the multinational pharmaceutical companies have put in place market development strategies that enables them sell their existing products in a new market (Ansoff,1957), with the most common strategy being base of the pyramid market development strategy followed by blue ocean strategy. Surprisingly, some of the companies involved in blue ocean strategy of market development are all actively carrying out base of the pyramid strategy.

To serve the new market, the multinational pharmaceutical companies have put in some changes with the prominent change being on price (Mean 3.95; SD 1.39) followed by packaging, distribution channel by incorporating established distribution network like Kenya medical supplies agencies (KEMSA) and Missions for essential drugs and supplies(MEDS) and least changed factor being payment mode. As recommended by Prahalad (2004), to effectively serve the market at the base of the pyramid, there is need for companies to do some adjustment on their products especially price and even distribution channel as recommended by Vovoryte (2011). To achieve objective the product more affordable hence prominent change in price of products marketed by multinational pharmaceutical companies in an industry sector that has the most prominent market development strategy being base of the pyramid strategy.

The study also showed that the market development strategies implemented by the multinational pharmaceutical companies have great positive correlation with various measure of performance, profitability showed positive correlation with pyramid strategy and sales showed similar result with blue ocean strategy. Similarly, there was negative correlation between base of pyramid strategy and employee motivation.

The study finding indicates that implementation of blue ocean market development strategy is to greatly improve profitability of the organization while reducing employee motivation while blue ocean is likely to have great positive impact on sales with very low influence on acquisition of customer, employee motivation and profitability.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the data findings relationship between market development strategies and performance of multinational pharmaceutical companies in Kenya, the conclusions and recommendations are drowning from the findings too.

5.2 Summary of the Findings

The data confirms that multinational pharmaceutical companies operating in Kenya have got good performance based of specific measure of performance representing the four different perspective of performance evaluation of the balanced score card. The score value obtained in measure of 1 to 5 (1 for poor to 5 for excellent) was ranging between 2.8 and 3.8.

To further boost their performance, the multinational pharmaceutical companies were found to be actively involved in market development with the most used strategy being base of the pyramid market development strategy though blue ocean strategy is also employed by other multinational pharmaceutical companies. The implementation of these strategies is accompanied by some changes in various aspects of products like price, packaging, distribution channel and means of payment by customers. These changes are made to help meet the needs of the new market that the multinational pharmaceutical companies target to reach

Both base of the pyramid and blue ocean market development strategies implemented by the multinational pharmaceutical companies have considerable impact on their performance with likelihood of base of the pyramid strategy positively affecting profitability while reducing employee motivation and blue ocean strategy having positive impact on sale of the organization.

5.3 Conclusion

Multinational pharmaceutical companies operating in Kenya have overall good performance based on the balanced score card measure of performance and are actively involved in both base of the pyramid and blue ocean market development strategy though most of these companies implement base of the pyramid market development strategy.

The market development strategy implemented by these organizations have shown positive impact on their performance of with notable measure of performance that are positively affected being sales by blue ocean strategy and profitability by base of the pyramid strategy though employee motivation is negatively affected by base of the pyramid strategy.

The positive correlation between market development strategies and measures of performance of multinational pharmaceutical companies indicates that better performance can be obtained if the companies put in place and effectively implement market development strategies. During the implementation of base of the pyramid strategy, there is need for the company management to put up measures that will ensure that employee remain motivated in doing their work.

5.4 Recommendation

From the research findings, it was found that multinational pharmaceutical companies are actively involved in market development to enhance their performance. In an industry where strict regulation is required to safeguard the interest of patients, the

Kenyan pharmacy and poisons board should therefore develop necessary regulations to regulate the activities of these companies in terms of accessing new market.

The implementation of both blue ocean strategy and base of the pyramid strategy needs to be managed well to effectively deliver the best result in terms of improving organization performance, management of the various pharmaceutical companies need to develop appropriate guidelines for implementation of market development strategies to increase their performance.

5.5 Limitation of the Study

The researcher used a semi structured questionnaire with both closed and open ended questions to collect data. Though the researcher ensured that all the questions were well thought out and even provided possibility of the respondent to express the intensity of agreeing or disagreeing by use of Likert scale, closed ended questions limited the responses given and the responded were compelled to answer questions according to researcher’s choices. This could have led to some information which might be important on the market development strategy and performance of the multinational pharmaceutical companies being left out.

The study focused on both the managers in office and sales representatives in the field who were always busy carrying out their regular duties allocated to them by the company top management. This made it difficult to schedule appropriate timings for administering questionnaire. However, data was eventually collected and analysed as earlier planned.

5.6 Suggestions for Further Studies

The study focused on specific measures of performance which are elements of the four perspective of viewing performance as per the balanced score card. This gave a limited view of performance hence study including more measures of performance would be appropriate to determine the overall performance of the organization.

Within the study, the researcher only identified the market development strategies as base of the pyramid strategies and blue ocean strategies but did not give comprehensive details on how these strategies are implemented by the various multinational pharmaceutical companies, it would be more appropriate if future research strive to given more details on the design and management of both base of the pyramid and blue ocean strategies implemented by multinational pharmaceuticals companies.

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APPENDICES

Appendix I: Introduction Letter

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
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P.O. Box 30197
Nairobi, Kenya

DATE 12/7/2016

TO WHOM IT MAY CONCERN

The bearer of this letter TONNY MUGA SAMUEL

Registration No. D61/70728/2013

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
12 JUL 2016
P.O. Box 30197 - 00100, NAIROBI

PATRICK NYABUTO
SENIOR ADMINISTRATIVE ASSISTANT
SCHOOL OF BUSINESS

Appendix II: Questionnaire

<u>MARKET DEVELOPMENT STRATEGIES AND PERFOMANCE OF MULTINATIONAL PHARMACEUTICAL COMPANIES IN KENYA</u>

I am an MBA student at the University of Nairobi conducting academic research to identify various market development strategies employed by multinational pharmaceutical companies in Kenya and determine the influence of these strategies on their performance. The information gathered by use of this questionnaire will strictly be used for the academic purposes of this paper and will be treated with the highest level of confidentiality. I kindly request you to spare some of your valuable time and fill in this questionnaire.

Please tick the most appropriate box. Thank you very much.

SECTION A: Demographic data

1. How many years have you worked in the pharmaceutical industry (please specify)..
2. Please indicate which company you work for..
3. For how long have you worked in the company
    a) Less than one year
    b) 1-5 years
    c) 6 – 10 years
    d) Over 10 years
4. What is your current position?...
5. For how long have you served in the above position
    a) Less than one year

b) 2-5 years

c) Over 5 years

SECTION B: MARKET DEVELOPMENT STRATEGIES AND PERFOMANCE

Instructions: Bellow are some questions and statements on the market development strategies, kindly indicate the extent to which you agree with the statement by ticking appropriate box.

1. In your own opinion, to what extent do you think getting new market can influence performance of multinational pharmaceutical company?

To very great extent [ ]

To great extent [ ]

To Moderate extent [ ]

To little extent [ ]

To no extent [ ]

2. Is your company involved in any of these market development strategies?

a. Base of the Pyramid market development (Involve selling goods to low income earners)

Yes [ ] No [ ]

b. Blue ocean strategy (involve selling to new group of customers that other companies in your industry is not selling to e.g. selling medicine to transport industry players)

Yes [ ] No [ ]

c. A part from the two strategies, what other ways do your company get into new market for the existing products (Please specify)

....

....

....

....

3. Do your company have specific department to coordinate the market development activities

Yes [ ] No [ ]

4. Do you believe your company need a special distribution channel for the new market?

No [ ] yes [ ]

5. Which could be your best distributor for the new market?

a. [ ] KEMSA

b. [ ] MEDS

c. Others (please specify the distributor)

....

6. To what extent has your company changed the following in order to serve the new market (Choose **1** for No extent, **2** for Little extent, **3** for Moderate extent, **4** for great extent and **5** for very great extent).

	STATEMENT	**1** No extent	**2** Little extent	**3** Moderate extent	**4** great extent	**5** very great extent
1	Price					
2	Distribution channel					
3	Packaging					
4	Payment mode (Credit, cash or cheque)					

What other aspects has your company changed to serve the new market (please Specify)

....

....

....

7. How would you rank your company based on the following measure of performance (Choose **1** for Poor, **2** for Fair, **3** for Good, **4** for Very Good and **5** for Excellent)

	STATEMENT	**1** Poor	**2** Fair	**3** Good	**4** Very good	**5** Excellent
1	Sales					
2	Customer satisfaction					
3	Acquisition of new customer					
4	Employee performance					
5	Employee retention					
6	Employee innovation					
7	Employee training					
8	Sales growth					
9	Profitability					
10	Efficiency in meeting the customers need					

8. Market development has contributed positively to the following measure of performance in your organization (Choose **1** for strongly Disagree, **2** for Disagree, **3** for Agree, **4** for strongly agree).

	STATEMENT	**1 strongly disagree**	**2 Disagree**	**3 Agree**	**4 Strongly agree**
1	Sales				
2	Acquisition of new customer				
3	Employee motivation				
4	Employee innovation				
5	Sales growth				
6	Profitability				

Appendix III: List of Multinational Pharmaceutical Companies in Kenya

1. AstraZeneca
2. Pfizer
3. Ella Lilly
4. Novo Nordisk
5. Merck Sharp & Dohme (MSD)
6. Menarini
7. Adcock Ingram
8. Bayer
9. Merck
10. Glaxosmithkline
11. Glenmark
12. Boehringer Ingelheim
13. Servier
14. Sun
15. Abbot
16. Jansen
17. Novartis
18. Sanofi
19. Allergan
20. Roche
21. Cipla
22. Getz