INFLUENCE OF DIFFERENTIATION STRATEGY ON PERFORMANCE OF PHARMACEUTICAL COMPANIES OPERATING IN KENYA

BY

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DECLARATION

This research project is my original work and has not been presented for the award of a Degree in any other university or institution for any other purpose.

Signature …………………………… Date ……………………….

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D61/7623/2017

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

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ABBREVIATIONS

MNC:	Multinational Corporations
COMESA:	Common Market for Eastern and Central Africa
PPB:	Pharmacy and Poison Board
SPSS:	Statistical Package for Social Sciences
ANOVA:	Analysis of variance
TQM:	Total quality Management

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ABSTRACT

This study is undertaken to establish the adoption of differentiation strategies by pharmaceutical companies operating in Kenya and how the strategies influence performance of these companies. Differentiation strategy entails the firm creating a unique product or service that satisfies the consumer needs. Performance is concerned about the process of monitoring, evaluating and reporting organizations progress in line with the organization objectives and goals. The study employed descriptive survey research design for collection of quantitative data by use of standardized questionnaire. Differentiation strategy were divided into sub strategies such as product value addition, service differentiation, distribution networks, promotional and marketing strategies. Target population was the manufacturers and distributors of pharmaceutical companies operating in Nairobi area because most of the pharmaceutical companies are based in Nairobi. A total of 32 firms (manufacturers and distributors) responded to the questionnaire and the finding of these were generalized to the larger population that is the pharmaceutical industry. The study findings show that the services strategies is mostly applied as they employ qualified personnel who do direct marketing and sales to the targeted consumers. The findings determined that there is a positive relationship between differentiation strategy and performance of organizations. This relationship analysis was done using regression analysis by the use of SPSS software. The challenge met in doing the study is that the targeted respondents who were managers and directors were not able to respond to the questionnaires due to different reasons such as time factor. Differentiation can be applied in other industries operating in Kenya for further studies on this topic.

CHAPTER ONE: INTRODUCTION

1.1. Background

Strategy is the long-term direction and scope of the organization that helps it to attain competitive advantage through its alignment of resources within the dynamic environment in order to realize stakeholders' expectation (Johnson & Scholes, 2000). Strategy is deciding where you want to be as an organization and the course of actions in place to achieve that vision. Organization strategies are categorized into three; corporate strategies, business unit strategies and operational strategies. Corporate strategy gives the overall direction and scope of organization to meet the shareholders' expectations and value addition to different areas of the business such as outsourcing. Business unit strategy is mainly concerned about how to compete successfully in the market, while operational strategies involves the daily functioning processes that occur in the organization leading to the achievement of the organization goals.

Porter (1980) came up with generic strategies that companies can apply to gain competitive advantage in the industry in which they operate. There are three generic strategies according to Porter and these are; cost leadership (where a company projects itself as the cheapest provider of a certain product or service in a competitive environment). Differentiation (this is where companies design their products in ways that make the product different from what other competitors are offering in the market). Focus (a strategy where company focuses and concentrates its resources on a specific target market).

The above strategies are not industry-specific hence are referred to as generic strategies this means that they are applicable to products and services in the different industries.

Kenya is among the largest producers and distributors of pharmaceutical products in the Common Market of Eastern and Southern Africa (COMESA) region. There are many pharmaceutical companies based in Kenya some of which are locally owned while others are multinational pharmaceutical companies with offices and distributors in Kenya. The industry is categorized into three namely the manufacturers, distributors and retailers (Kenya Economic survey 2015).

Kenya's business environment is quite dynamic and very competitive. Therefore, for organizations and companies to thrive and be successful, they have to come up with different strategies that enable them to compete in the market, achieve core competencies and ensure their survival in the market is not threatened. Many firms have adopted generic strategies by managing costs, focusing on particular market segments and differentiating their products. This strategic positioning is therefore also applicable in the pharmaceutical industry in Kenya.

In the modern times, organizations experience rapidly fluctuating business and economic environments accompanied with the struggle to compete for customers, revenue maximization and the need to increase the market share with products and services that meet consumer's needs. With the rise of the technological changes, the business world has seen a rise in the rate of competition globally whereby customers are exposed to better quality hence putting pressure on local businesses for high quality products or services for lower prices.

This has consequently, led to the decline in the expected product life cycle therefore leading to additional emphasis being attached to organizational ability to deliver the best and the demand for businesses to sharpen their competitive advantage with strategies such as product/ service differentiation (Dirisu, Iyiola & Ibidunni,2013).

1.1.1. Differentiation Strategy

According to Porter (1998), strategies are about competitive position. An organization can add value to products offered to its customers by doing different actions from what their competitors are undertaking. Enhancing the quality of products through providing different value additions to their products appeals to the customer and therefore, organizations are able to create and maintain loyalty from their customers as well as charge premium prices that they can compete with in the market.

Product differentiation is a strategy used to influence consumers of unique products that gives a competitive advantage over similar products (Porter, 1985). Differentiation strategy consist of making your products and services different from competitors in the industry to ensure that they are more attractive to the customers. This includes modifying the characteristics of the product such as durability, functionality, and brand image and the after-sales service.

This value addition to product or service to the customer will enable the organization to obtain core competency in this area of differentiation creating barriers for other competitors to imitate their products and thereby ensures that a company gains competitive advantage.

Differentiation involves tailoring a product to suit the need of the customer (McCracken, 2002). This is the ability of an organization to provide products or services deemed by the consumer to be different from, and of higher value than the competition. This strategy does well with effective marketing so that consumers are responsive to the superiority of the unique features that the product offers.

Pharmaceutical companies are increasingly recognizing that the way in which products are delivered, packaged and presented can add significant value to a company. They have therefore adopted differentiation strategy so that they gain competitive advantage and improve their performance. Cole (2008) points that strategies for service or product differentiation includes product characteristics and benefits to the consumer and that the most effective strategy for any venture is to focus on one or two strategies. Porter (1990), on the other hand, reasons that for any firm to reach the desired results it should differentiate itself with more than one dimension.

The differentiation strategy entails the organization producing a unique product or service that satisfies the consumer needs. In contrast, cost leadership puts emphasis on lowering the cost incurred relative to that of the competition Porter (1985) reasoned that the cost leadership strategy was mutually exclusive to the differentiation strategy. Recent literature works and research papers have looked into the possibility of the fact that organizations may employ both types of strategies (Chenhall & LangfieldSmith, 1998). Nonetheless, previous researches indicate that a significant number of the manufacturing firms regard differentiation strategy as a more vital, distinct and better technique to gain competitive advantage as compared to lowering cost incurred.

Differentiation strategy according to porter (1994), an organization can be unique in different dimensions that will be mostly appreciated by the targeted customers. The firm therefore uniquely meets the need of the consumers by choosing a single or more aspects seen to be significant by many consumers within an industry. Hence, the organization gets its reward from the uniqueness of its products or services by the consumers paying premium prices. Different industries use different ways to differentiate. Establishment of Differentiation can be based on the product, network delivery system, promotional approach, approaches used in marketing and various other factors. Differentiation strategy in itself is divided into sub strategies such as value added products strategy, service differentiation strategy, distribution network strategy promotional and marketing strategies.

Value added Product: A product is anything tangible or intangible that can be offered in a market Wanyama (2008).Product differentiation involves making a product have distinctive features or characteristics. Firms have to develop products regularly to attract customers and maintain their loyalty to brand. Distinguishing characteristics ensures that the customers’ needs are met uniquely. Product differentiation determines what sets apart product from another. Its aim is to change customers’ perspective on the products offered in the market. It can be as simple as changing the packaging or incorporating new functional features.

Service differentiation: Services are actions performed by people to customers. Service involves the quality of services that are offered to customers and the experience the customers have during and after receiving the service. The actions involved here are; the way delivery services are done by firms, advisory services to consumers, a firm having skilled personnel to perform services and an organization coming up with a unique way of doing a service that other firms cannot imitate and therefore customers’ loyalty is guaranteed. Consistency of performance from employees is required for service differentiation to work.

Distribution network: this is are the channels involving both individuals and others firms through which an organization uses to get a product or a service to the end user. An efficient distribution network and channels ensures that products reach the targeted consumers on time and in good quality. Consumer's needs are met uniquely if organization ensures that their products are available in retail outlets and there is backward and forward integration within the value chain system with good communication networks.

Promotional and marketing strategies**:** Firms must come up with the right marketing and promotion mix to warrant achievement of organization goals and objectives. Promotions activities entails product, service or brand communication to the targeted users in order to make them aware, attract them and thereby induce them to buy in preference over others. Firms may promote its products through use of samples and gifts indiscriminately to attract the target customers. They can also send a simple advertising message to so that the targeted customers are aware of the existing products in the market.

Marketing strategy under differentiation involves a firm coming up with new brand in the market that can meet needs that were not being met before. Brands may be introduced for a specific market with a specific need, multiple brands to meet different needs in a market or just anew brand that to anew market. Firms have to include incentives when entering new markets with the competitive prices.

1.1.2. Organizational Performance

Performance is concerned about the process of monitoring, evaluating and reporting organizations progress in line with the organization objectives and goals (Cantens & Yasui, 2011). This is the ability of an organization to compete in the market achieved through raising the degree of efficiency and productivity, which guarantees a sustained market presence for the firm.

Most organizations measure their performance in terms of efficiency and effectiveness. Effectiveness is the extent to which an organization is realizing laid out objectives and goals. Efficiency refers to the percentage of outputs to the relevant inputs that includes resources and processes.

New methods of Performance Management systems are being emulated such Balanced Scorecard, Business Process Re-engineering (BRP), Total Quality Management (TQM) and Benchmarking Performance Measurement involves the processes of quantifying the effectiveness and efficiency of activities and is also viewed as part of the general Performance Management system. Most of the organization performance studies talk about the Economy, Efficiency, and Effectiveness.

Organizations may want to achieve many objectives nowadays, the major ones being: the achievement of competitive advantage position and the enhancement of performance of the firm in relation to those of competitors. The two main goals that firms aspire to achieve are; enhance their organization’s performance in relation to that of their competitors and competitive advantage position despite there being many other objectives.(Raduan, Jegak, Haslinda & Alimin 2009).Organizations should understand the relationship between theirs internal strengths and weaknesses and how these may affect the firm’s performance.

The balance scorecard is the most used performance management tool. This instrument provides the necessary feedback on both the internal activities and the external achievements that ensures continuous improvement on strategic performance and business results. It enables an organization to make clear its goals, the vision and the proposed approaches and later implement them. The balance scorecard is a model that allows the organization to evaluate and assess its performance by shifting the focus to the realization of the results (Kaplan & Norton, 1992).

The organization rates the results areas depending on the stakeholder's interests; for example, the shareholders or financiers, the firm's clients, the staff and the managers. The balance scorecard leads the managers to view the firm four different perspectives: learning curve, business process, customer satisfaction and financial management and growth. This study looks at organizational performance based on revenue growth, customer satisfaction levels, product quality and market share development (Cantens & Yasui, 2011).

1.1.3. Pharmaceutical industry in Kenya

Kenya has a vibrant and dynamic pharmaceutical industry that is a sub sector of the Ministry of Health and regulated by The Pharmacy and Poisons Board. Pharmacy and Poisons Board is an authority that was incepted to regulate drugs established in 1989 (Government of Kenya, 1989) under the Pharmacy and Poisons Act chapter 244 of the Laws of Kenya.

Ministry of Health in association with the Pharmacy and Poison Board was empowered in 2002 to provide guidelines under which medicine may be imported, produced for consumption or sold in Kenya. The largest consumers of pharmaceutical products are the hospitals and health centers operating around the country while some companies do export pharmaceutical products abroad in the COMESA region.

In Kenya the pharmaceutical industry chain comprises of manufacturers or producers, distributors or suppliers and retailers. These entail the local manufacturing firms, multi-national corporations (MNCs), company subsidiaries or joint ventures. A large number of these firms are located within Nairobi city and its environs. These pharmaceutical firms have a collective labor force of over 3000 people, with a rough ratio of 65% who in direct production (Kenya Association of Manufacturing, 2015).

The government's effort to sponsor both foreign and internal investment in the pharmaceutical sector has greatly driven the rise in the quantity of firms that concentrate in the manufacturing and distribution of the pharmaceutical products in Kenya. The pharmaceutical market in Kenya reached $558.5 million in 2016 the turnover total in the local production was at $103 million. The pharmaceutical sector value addition produces around $62 million yearly.

1.2. Research Problem

Different pharmaceutical companies operating in Kenya use different strategies to compete. Due to the saturation of markets, increased competition and consumers demanding for products that meet their personal needs and desires, creating market segments, contemplating changes in business strategy and product differentiation has become an important competitive strategy. A lot of research and development is ongoing on drugs and human medicine due to advancement in technology and Pharmaceuticals are coming up with new drugs and new ways of treating diseases therefore, there is a constant change in the industry.

Many studies on differentiation strategy have been done both here in Kenya as well as out of the country. Such studies include the one done by Heiko, Anders and Lars (2011) involving determining the how differentiation strategy affects business performance on manufacturing companies that are based in Europe. Anyim (2012) on the study of service differentiation among private hospitals in Nairobi; a study by Kamau (2013) showed the influence of differentiation strategy on sales performance in supermarkets in Nakuru that dealt with distributors of assorted commodities. Wanyama (2008) studied differentiation as a strategic tool used by manufacturing pharmaceutical companies producing human medicine in Kenya.

The research problem in this study is how differentiation strategies influences performance in terms of context and concept as the number of pharmaceutical companies operating in Kenya have increased drastically in the last five years. These firms have come up with different competitive strategies but because drugs contents for treating specific diseases are same for almost all products, differentiation has become one of the competitive tools that the firms use in order to make their products unique. This study therefore, seeks to seal this gap created due to changes in contextual nature of the pharmaceutical industry in Kenya. Therefore, the question that this paper seeks to answer is; does differentiation strategy influences performance in pharmaceutical companies in Kenya?

1.3. Research Objectives

The objectives of the study is:

- To determine adoption of differentiation strategies by pharmaceuticals firms in Kenya
- To determine how differentiation strategies influences performance

1.4. Value of the Study

The research findings of this research paper will provide empirical evidence for strategists and managers for decision-making and planning purposes when pursuing differentiation as a competitive tool in their organization. It will help the practitioners in the pharmaceutical industry ability to achieve success in their businesses by coming up with effective decisions for their firms.

This study will be valuable to scholars in the future as they use it as point of reference and analysis in their work during the process of doing research on differentiation related studies. The findings will provide a source of literature review as it further adds up to the existing knowledge on differentiation strategy. The research will also provide useful information to those tasked with the responsibility of policy formulation to come up with effective policies, rules and regulations that will promote differentiation strategies in order to enhance competitiveness in the pharmaceutical industry. These will include the Ministry of Health and regulatory body that is the Pharmacy and Poisons Board (PPB).

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

This chapter summaries theoretical framework and literature of the study that encompasses review of the influence of differentiation strategies on performance. It also discusses other related studies conducted thereby outlining the gaps that exist in relation to this study.

2.2. Theoretical Foundation of the study

There are various theories that are applicable to the proposed study and two of the theories discussed are Dynamic Capability Theory and Industrial Organization Theory.

2.2.1. Dynamic Capability Theory

Dynamic capability is explained by Teece, Pisano and Shuen (1997) as the capability by the firm to assimilate, construct, and rearrange internal and external strengths to address dynamic environments. Auger and Teece (2009) argues that the dynamic capabilities approach is established upon the theoretical fundamentals outlined by Schumpeter (1934) where, competition based on innovation and competitive advantage is based on 'creatively destroying' the current resources and promotes reorganization into new operational capabilities.

Eisenhardt and Martin (2000) outlines that dynamic capabilities actually consist of definite and detectible practices. It involves the organizational processes that utilize resources in the creation, development and adaptation within the environment that's changing and the allowing of reconfiguration of an organization resources. Reconfiguring firm's resources by recombining old resources in better ways over time is what constitutes Dynamic Capabilities processes (Helfat & Peteraf, 2007).

Ambrosini and Bowman (2009) state dynamic capabilities has the role of taking the firm's minimal resources available and transform it into a new structure of resources to create and enhance a sustainable competitive advantage. Ambrosini et al (2009), argues that the dynamic capability theory is an extension of Resource Base View theory whereby the performance of a firm is influenced by its resources and capabilities. Resource Base View theory (RBV) was prominent in the provision of descriptions of some organization that are successfully demonstrated innovations that are fast and flexible, quick responses along with the administration competencies to effectively direct and reorganize internal and external capabilities.

According to Teece et al, (1997), dynamic capabilities are mostly significant for performance in conditions of environmental variation when an organization needs to revive its set of competences. Dynamic capabilities can take various roles in firms such as; allocation of resources changes, procedures in the organization, transfer of knowledge and its improvement, and policy making.

Dynamic capability is relevant to this proposed study as it focuses directly on the processes of operations and distribution network with emphasis on organization internal resources, quality, customer satisfaction the core management structures and practices.

2.2.2. Industrial Organization Economics Theory

Behaviors of organizations determines the Industry structure this shared conduct by the firms in the end determines the combined performance of the organization in the industry Bain (1968) and (Mason, 1953). According to Bain (1968), Performance broadly defined in terms of social performance, covering scopes such as innovativeness, firm's profitability, cost reduction etc. The conduct of an organization involves the choice of main decision variables that is quality, marketing, capacity and price. Industry characteristics determine the performance of the firm as opposed to the firm-based issues (Barney, 1986).

Industrial organization is one of the areas of economics that has seen rapid growth in the last two decades. Industrial economics was founded on games theory and as the theory of extensive form games advanced, so did industrial economics. Much of the early motivation for theoretical work came from the empirical studies of the ‘American school', best characterized by the work of (Bain, 1956).

Industry structure is defined as the comparatively technical and stable economic dimensions of an industry that provided the context in which competition occurred (Bain, 1972). The key elements of structure identified as significant to performance in industrial organization research were barriers to entry Bain (1956), the number and size distribution of firms, product differentiation and the overall elasticity of demand.

A vital feature of the Bain/ Mason model was the view that since organization strategy is determined by structures of which in the end mutually determine performance; we can possibly overlook conduct and therefore look at industry structure in trying to describe performance. The environment of operation is simply reflected by strategy. The essence of the industrial organization paradigm developed by Mason (1963), Bain (1968) was that an organization’s performance in the market place directly dependable on the features of the operation environment of the industry.

The relevance of Industrial Organization theory to this study is that it focuses on the industry structure in terms of behaviors adopted by the firms in this case differentiation adopted by pharmaceutical firms with its main emphasis is on profitability, efficiency, product quality in relation to performance of the firm in the industry.

2.3. Differentiation Strategy and Organizational Performance

Porter (1980; 1985) developed the generic strategies for realizing a sustainable competitive advantage position by a firm. These are product differentiation, cost leadership strategies and focus. Product differentiation was found to be the most preferred of the three generic strategies. Empirical research by Miller and Dess (1993) outlined that the generic strategy framework is improved by taking the cost leadership, product differentiation and focus as a three-dimension strategy positioning as opposed to three separate strategies.

Researchers such as White (1988) have also reinforced the idea that pursuing several sources of competitive advantage is possible. Merging differentiation strategy with a market focus strategy is a much more effective technique of matching your differentiated products to target market. However, some combinations like cost leadership with product differentiation are difficult to implement as a result of the conflict that arises between cost reduction and the surplus cost that arises due to value addition differentiation. In addition, firms that apply a clear competitive strategy tend to gain a significant performance benefits. Porter (1985) also pointed out that competitive advantage is also a critical factor for performance of the company that enables it to compete and grow.

The study conclusions of Acquaah and Yasai-Ardekani (2008) shows the practicality and increase in the profit margins accompanied the implementation of cost management strategy, product differentiation, as well as the combination of the two strategies. However, according to the study, the increased performance benefit to firms implementing both the strategies as a package does not considerably vary from the performance of firms that implement differentiation only. A study done by Aykan, Ebru and Teeratansirikool et al. (2013) concluded that there is a clear and strong positive relationship between differentiation strategy and the achieved performance in organizations.

Prajogo and Sohal (2006) results also outlines that the relationship between Total Quality Management (TQM) differentiation strategies is positive and it merges the connection between performance methods and differentiation strategy. Prajogo (2007) examined the fundamental strategic intention of quality performance and the result of his findings show that differentiation strategy as opposed to cost leadership strategy predicts product quality. Quality is realization of ‘cost consciousness’ differentiation strategy that is when a firm pursue quality, it not only offers better quality products compared to their competitors but also lowers cost level.. The quality is from the external and internal aspects. Externally, the quality is in the form of performance, reliability, and durability. The quality aspect presents a differentiation strategy. The consumer’s perception of the product is determined by the quality aspect.

The outcomes of Mosakowski (1993) study mainly reinforced the theories that, when a firm establishes focus and differentiation strategies, organization’s performance is greater compared to other firms. Study by Hill (1998) discovered that the company bears the incremental cost of production that comes with implementation of this differentiation strategy at first. Eventually, companies achieve cost efficiency and increased customer loyalty, as a main indicator of a rise in the positive performance of the company. Some studies have been unable to find a link between strategy and performance while other studies on the same subject have found the link between strategy and performance reduced by the variables that arise in different situations that includes focus on manufacturing processes and firm's profitability.

According to Aliqah (2012) in his studies designed to survey the influence of differentiation strategy on the organizational performance of Jordanian industrial companies, the result of multiple regression analysis indicated that there is no significant impact on organizational performance when they use differentiation strategy. The result contradicted the previous research results in which indicated significant positive relationships between differentiation strategy and organizational performance.

Hambrick (1983) studied capital goods producers and manufacturers of industrial products and supported the implementation of differentiation strategy. Morgan, Kaleka and Katsikeas (2004) measured product ability that is differentiation advantage by greater quality product, packaging used and also design and style: in addition Chenhall and Langfield-Smith (1998) used five variable in the measurement of product differentiation these are; fast deliveries ,superior products production, design and product development and providing inimitable product characteristics.

The variable s adopted by Abu-Aliqah (2012) in his study for the measurement of product differentiation strategy are: unique product characteristics, excellent product quality, fast delivery, design and new products. Measuring of organization performance have been done differently in the previous studies and this have ranged from financial to non-financial measurement matters. However, some of the items identified by Abu-Aliqah (2012) include growth in sales rate, Return on Investment, operation cash flow, Customer fulfilment, Product quality and Market share development.

When differentiation strategy is adopted by organizations it can be used as a competitive tool that provides advantage to the firm in the provision of products that satisfies specific customer's needs. Quality is one of the major factor in differentiating products for the purpose of satisfying individual's needs. (Shammot, 2011). This therefore, ensures customers willingness to pay more for products that satisfying their individual tastes and styles. Therefore, the focus of this study is determination of adoption of differentiation strategy and its influence on performance.

This study proposes the relationship between the differentiation and organizational performance to be positive Basing it on the on the literature reviewed above. Therefore, the null hypothesis for the paper is that: the relationship between differentiation strategy and performance of pharmaceutical companies is positive.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

This section outlines the research methods, population under study, data collection methods that will be applicable and data analysis methods. Sample survey was used because it is the most appropriate approach for the study.

3.2 Research Design

The study utilized descriptive survey research design. The reason for using this research design is that it helps in collecting quantitative data to give meaningful responses that leads to an elaborate understanding of the elements under study and it has enabled the researcher in the generalization of the findings to the bigger population. This design is considered fit in establishing the influence of product differentiation to performance on pharmaceutical companies operating in Kenya.

3.3 Population

Population of the study involved licensed Pharmaceutical Companies operating in Nairobi Kenya and registered by the Pharmacy and Poison Board as at 2017. These firms include both the manufacturing companies and large pharmaceutical distributors. All locally owned companies and foreign Multinational pharmaceutical companies operating in Nairobi were considered as part of study population.

The study focused on pharmaceutical companies in Nairobi because most of the pharmaceutical manufacturers and distributors are located in Nairobi and most of them have their headquarters and offices in Nairobi. The targeted respondents were managers and supervisors. There are about 30 registered manufacturing pharmaceutical companies in Kenya and about 150 distributors of pharmaceutical products.

3.4 Sample Size

Firms were grouped as either distributors or manufacturers and stratified random sampling used. A sample of 25% of the groups was used to as representation sample. Mugenda (2003), states that a 10% of the population can be accurately used in the generalization of the findings. A total number of 46 firms were identified with eight firms being manufacturers and rest 38 firms being distributors.

3.5 Data Collection

The data collection process was done using a standardized questionnaire as shown in appendix I the researcher used drop and pick method and follow up done by personal visits and telephone calls to the facilitate responses. Questionnaires enabled the researcher to obtain more insights into the questions that were asked to the respondents and provide an opportunity for a broader analysis of the results.

The questionnaire has was divided into parts; the first section sought data on the company profile such as ownership, number of years in operation category of products and management. Section II seeks information on the extent of differentiation strategies adopted by the firms in terms of, value-added products, operating procedure, distribution network, service strategies promotional and marketing strategies.

The questionnaire design was adopted from King'oo (2015) in his study on the effects of differentiation strategies on market share of tea export firms in Kenya and Wanyama (2008) who studied differentiation strategy of pharmaceutical companies manufacturing human medicine in Kenya and modified to suit the questions that are considered necessary for this study.

3.6 Data Analysis

Data analysis was done using descriptive statistics method. This includes arithmetic means, frequencies, percentages and standard deviation. In this study, the independent variables (value-added products; distribution network; service strategies; promotional strategies and marketing strategies will be measured using a Likert scale (5-point) (1=Strongly, Disagree2; Disagree 3=Neutral; 4=Agree; 5=Strongly Agree) while the dependent variable (performance) were measured using the interval scale.

Data is presented on tables to give a visual picture and for easy understanding of the findings. The relationship between variables was analyzed using regression method. This method of analysis is mostly necessary as it enables the researcher to have a deep insight on the relationships.

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

4.1 Introduction

The study sought to establish the extent of adoption of differentiation strategy by Pharmaceutical firms in Kenya and the effect of differentiation strategy on the performance. Questionnaires were used as the data collection instrument which were sent to the pharmaceutical companies to get responses on the issue. The study targeted eight licensed Pharmaceutical Manufacturing Companies out of which five responded and 38 licensed pharmaceutical distributors out of which 27 responded gave back their questionnaires giving a response rate of 71% of the total sample population.

Every response was recorded against the set variables. Analysis of quantitative data was done using descriptive statistics where mean, standard deviation and percentage of the responses was given and then presented inform of tables for easy understanding. The study wanted to determine the adoption of differentiation strategies in the pharmaceutical companies and this was measured on Likert scale ranging from number1-5 (1=Strongly, Disagree2; Disagree 3=Neutral; 4=Agree; 5=strongly Agree; the relationships between the variables were analyzed using statistical regression method on the SPSS software.

4.2 Organizational Details

This segment gives the findings pertaining the overall features of the organization including; ownership of the pharmaceutical companies, years they have been in operation, category of products produced and sold, target markets of the pharmaceuticals firms in Kenya, and the position held by respondents in the organization. It is important get a general view of the respondents and theirs companies and ensures the relevancy of the information to this study.

Table 1: organizational details

Year of operation	frequency	percentage
1-5 years	2	6.25%
5-10 years	7	21.88%
10-15 years	12	37.50%
15-20	3	9.38%
Above 20	8	25.00%
Total	**32**	**100%**
Type of ownership	**Frequency**	**Percentage**
Foreign	13	25%
Local	24	75%
Both foreign and local	0	0
Total	**32**	**100%**
Category of products	**frequency**	**percentage**
Generics	30	94.00%
Originals	2	6.00%
Total	**32**	**100%**

Target Markets	**frequency**	**percentage**
Local	18	56.30%
Foreign	0	0
Both	14	43.70%
Total	**32**	**100%**
Respondents Position	**frequency**	**percentage**
Director	2	6.30%
Manager	5	15.60%
Supervisor	15	46.90%
Medical representatives	10	31.20%
Total	**32**	**100%**

Source: field-data, 2018

4.2.1. Years of operation

Table 1 shows that 6.3% of the firms have been in operation for over 1-5years. 21.9% for 6-10 years while 37.5% have been in operation for 11-15 years, 9.4% having been in operation 15-20years and 25% for above 20 years. This is relevant to the study as the researcher can conclude on whether the companies employing the differentiation strategy have been in operation for a longer period of time or for a short period of time in the industry.

4.2.2. Type of Ownership

Organization ownership determines the policies and strategies put in place to conduct business and therefore, its competitiveness in the market. The ownership of pharmaceutical firms is important as it could have a bearing on the extent of adoption of differentiation strategies. Table 1 shows that most of the pharmaceutical companies are owned locally that is at 75 % and only 25% are foreign.

4.2.3. Products Category

Pharmaceutical companies deal with either generics or original drugs. Original drugs are also known as brand name drugs. These are drugs originally researched and developed by a specific company while, generics drugs have the same active ingredients as the brand name drugs and can be effectively substitute them. Generic drugs are cheaper that originals. This is because it the initial cost of developing the drugs is considered in the brand name drugs. The findings on table 1 shows that most pharmaceutical companies in Kenya deal with generic drugs. This drugs cost less than original drugs and therefore more people can be able to afford them from the table above 94% of drugs in Kenya are Generics.

4.2.4. Target Markets

COMESA reported Kenya being one of the premier producers of pharmaceutical products. Over 50% of pharmaceutical products in COMESA market are from Kenya. The markets are local, foreign or both. Table 1 shows that 56.3% of the goods are sold locally while 44.7% of the product are sold in foreign market in the COMESA region.

4.2.5. Respondents Position in the Organization

The researcher targeted respondents who were in supervisory position or management position in the organization. This is because they are in a position to know strategies and policies applied by their companies and in this case differentiation. These respondents are well conversant with the company policies with the question in study. Most respondents were supervisory staff in organization because access to the managers and Directors was limited. Medical representatives gave meaningful information as they directly deal with the customers. They are responsible for the marketing and promotional activities of their firms' products.

4.3. Differentiation Strategies Adopted by Pharmaceutical Firms

The aim of the study was to find how differentiation strategy influences the performance of pharmaceutical companies. There are different types of differentiation sub strategies adopted by the pharmaceutical companies and are used as competitive tools in the organizations. These types of differentiation are products differentiation/value added products, service differentiation strategies, distribution network strategies, promotional strategies and marketing strategies. Standard deviation and mean are used in this category to analyze the primary data. Mean measure the central tendency of the data. Standard deviation is a figure used in showing how measurements for a group of figures are spread out from the calculated mean. A low standard deviation tells that most of the numbers are very close to the calculated mean. When the standard deviation figure is high it shows that there is a spread out in the numbers

Table 2: Value Added Products

Sub-strategies	**Mean**	**Std. deviation**
Products distinctive features/characteristics	3.78	1.523
New products Innovation	2.81	1.718
Use of new technology for cost reduce	3.12	1.845
Uniqueness of brands for product choice	3.71	1.772
Reliability of products due to variety	3.53	1.938
Corporate reputation on quality	3.78	1.898
overall mean	**3.455**	

Table 3: Service strategies

Sub-strategies	**Mean**	**Std. Deviation**
Delivery services to customers	3.84	1.984
Advisory services to customers	4.31	3.054
Unique services for customers	3.06	1.425
Skilled personnel in marketing	4.59	3.28
overall mean	**3.16**	

Table 4: Distribution Network Strategies

Sub-strategies	**Mean**	**std. deviation**
Efficiency of Distribution network	3.34	1.796
Product availability in outlets	3.71	1.912
Good communication channels	4.09	2.646
Integration within the value chain	3.34	2.59
overall mean	**3.62**	

Table5: Promotional strategies

Promotional strategies	**Mean**	**std. deviation**
Direct promotion sales	4.69	3.851
Free samples and gifts	4.88	4.451
Advertising	2.38	2.416
Brand(s) Sponsored events	3.41	1.458
overall mean	**3.84**	

Table 6: Marketing Strategies

Sub-Strategies	Mean	std. deviation
A brand for specific market	3.813	1.957
Multiple brands different customers	4.156	2.371
New products	2.188	2.396
overall mean	**3.385**	

Source: Field data, 2018

Table 7: Differentiation strategies

Strategy	**Mean**	**Std. deviation**
Value-added products strategies	**3.393**	**2.134**
Service strategies	**3.953**	**2.436**
Distribution network strategy	**3.626**	**2.236**
Promotional strategies	**3.836**	**2.044**
Marketing Strategies	**3.385**	**2.241**

Table 2, 3,4,5,6 show the extent of adoption of the sub strategies by the pharmaceutical companies. The mean and standard deviation of each of the strategies calculated to find out the extent of adoption and how they are spread out using the standard deviation.

The overall mean and standard deviation of the differentiation strategies as adopted by the pharmaceutical companies are shown in the table 7 above. The results shows that most pharmaceutical companies have adopted differentiation strategies as the mean all the strategies were above 3 meaning they are leaning on the agreeing part of the Likert scale of 1-5 with 5 being strongly agreeing according to the questionnaire. Service differentiation has the highest weight in terms of mean. That is 3.953 on the scale. It is the differentiation sub strategy that is mostly adopted in the pharmaceutical companies.

4.4 Influence of Differentiation strategies on Performance

An organization can attain a greater performance than its competitors through the increase of sales volume and value of quality products. Differentiation can helps a firm create products services that are seen as being unique increasing the sales.

In this study, the researcher focused how the differentiation strategies identified influence the performance of the company. The relationship between these two variable were determined by regression analysis using SPSS software.

4.4.1. Regression analysis

This is a powerful technique that uses statistics and that lets the user test the relationship between 2 or more variables of concern in this case the relationship between the differentiation strategies and performance of the company. Performance being the independent variable while differentiation strategies being the independent variables.

Table 8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.951[a]	.905	.886	.36056	.905	49.367	5	26	.000

a. Predictors: (Constant), Marketing strategies, Value added products, Service strategies, Promotional strategies, Distribution networks

Table 9: ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	32.089	5	6.418	49.367	.000[a]
	Residual	3.380	26	.130		
	Total	35.469	31			

a. Predictors: (Constant), Marketing strategies, Value added products, Service strategies, Promotional strategies, Distribution networks

b. Dependent Variable: Performance

From table 8 adjusted r-squared value is .886 which means that 88.6 % of the dependent variable is explained by the independent variables that is the value added products service, strategies, network distribution strategies, promotional strategies and marketing strategies. The 88.6% explains that the adoption of differentiation strategies by the pharmaceutical companies has improve the performance of the company in terms of product and service quality, customer satisfaction and increase in annual sales. The P-value is 0.000 which is less than 0.05 (5%), indicating a 95% significant at confidence level.

The regression model derived from table 10 below shows is as follows $Y=0.231+0.64X_1+0.16X_2+0.81X_3 +0.12X_4+0.67X_5$

Y is the performance; 0.231 is the constant term; X_1 is value added products strategy; X_2 service strategies; X_3 is the distribution network; X_4 is the promotional; X_5 is marketing strategies.

Table10:Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.231	.287		.804	.429	-.359	.820
	Value added products	.064	.053	.247	1.219	.234	-.044	.173
	Service strategies	.016	.063	.064	.258	.798	-.113	.146
	Distribution networks	.081	.069	.351	1.171	.252	-.061	.224
	Promotional strategies	.012	.074	.046	.166	.869	-.139	.164
	Marketing strategies	.067	.055	.267	1.224	.232	-.045	.180

a. Dependent Variable: Performance

The model shows that the five strategies have a positive elasticity with performance. This means that the relationship between adopting any of the strategies by the pharmaceutical companies with lead to improved performance of the firms.

4.4. Discussion of Findings

This section discusses and Interprets key findings of the study under the organizational details of pharmaceutical companies as well as the extent of adoption of differentiation strategies and the influence of the strategies on performance of the pharmaceutical companies. The findings of the study are related to the empirical studies that are discussed under literature review on chapter two of the study.

The findings shows that differentiation strategy is a tool that has been undertaken by the pharmaceutical companies. Pharmaceutical companies are increasingly recognizing that the way in which products are delivered, packaged and presented can add significant value to a company. They have therefore adopted differentiation strategy so that they gain competitive advantage and improve their performance. The cost of differentiating products as well as services can be high but this also means that consumers are able to pay premium prices for good products that suits their needs. Companies may achieve quality products at low cost by use of advanced technology this ensures quality products and reduction of operating costs.

All the differentiation strategies identified by the researcher are averagely adopted by the pharmaceutical companies. Their means ranged from 3.393 to 3.953 and this was done on Likert scale of 1-5 (5- strongly agree; 1- strongly disagree). Service differentiation is the sub strategy that is most adopted by pharmaceutical companies with of mean of 3.953. Pharmaceutical products are sensitive and therefore the medical representatives who double up as sales persons are required to be skilled in the area of service delivery to the consumers.

These techniques are accompanied by the giving of free sample to doctors who in turn prescribe the products to the final consumers. Medical representatives are trained to give information about their products as well as advice on the same. Service differentiation strategy compliments promotional and marketing sub strategies.

From the regression analysis, differentiation strategy is seen to have a positive relationship with performance of pharmaceutical companies. The equation derived from the model of coefficient table is $Y=0.231+0.64X_1+0.16X_2+0.81X_3+0.12X_4+0.67X_5$. This shows that the dependents variables in the study positively affects the dependent variable and is in line with the null hypothesis of the researcher that the two variables involved in this study have a positive relationship. This also complements other researchers such as Mosakowski (1993) study's results that largely reinforced the framework that, when a firm establishes differentiation strategies, organization's performance is higher compared to other firms. Companies need to find out which of the sub strategies under differentiation strategy uniquely fits their organizations and pursue them.

CHAPTER FIVE: SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

This chapter gives the summary of the findings and the conclusion drawn from the research study. The researcher also presents recommendations on the studies and challenges faced as well as further areas of research.

5.2. Summary of the Study

Porter (1980) came up with the generic strategies of competing and differentiation is of the generic strategies. These strategies enable the organization to have sustainable competitive advantage over their rivals and therefore ensuring their survival in the industry and maintenance of high performance in the industry.

Questionnaires were distributed to the sampled pharmaceutical companies and there was response rate of 71% from the respondents. Five major differentiation strategies were examine by the researcher on this study. These included product differentiation, service strategies, distribution network promotional strategies and marketing strategies. Service differentiation was found to be the most used strategy in the pharmaceutical industry it had the highest mean of all the strategies that were examined with advisory services to customers having the highest percentages and standard deviation of all the sub strategies under service strategies.

From the regression analysis of the variables under the study a positive relationship was established between the two with all the sub strategies having positive coefficients meaning they are positively affecting performance of the pharmaceutical companies.

The equation derived from the analysis that show this is $Y=0.231+0.64X_1+0.16X_2+0.81X_3 +0.12X_4+0.67X_5$. The r squared adjusted value is .886 which shows that 88.6% of the differentiation strategies under this study explains an improved performance of pharmaceutical companies employing the strategies.

5.3. Conclusion of the Study

Based on the objectives of the study, differentiation strategies adopted by pharmaceutical companies and how these strategies affect performance of the companies, the study concluded that differentiation strategy and performance of pharmaceutical are related positively. The null hypothesis from the literature review was that there exists relationship between the two variables which is positive. Therefore the deduction drawn from this study is that when organizations use differentiation strategy the performance of the organization is improved.

The study established that firms that uses differentiation as a strategic tool will have improved performance and their customers will have be satisfied because differentiation ensures that the consumers' needs are meet uniquely. This will ensure that continual loyalty of the customers to the firms. When consumers are guaranteed that their needs will be met in a way that they get value for their money, organizations also achieve their goal of enhanced performance. It therefore benefits both the firm and the consumers.

5.4. Recommendations

Differentiation is an effective tool of competing by firms. Apart from ensuring consumers interest are met, differentiation increases brand royalty and therefore companies are able to charge higher prices for their products and services. When consumers have an Perception that a product is better than a competitors, whether the it is a belief or just speculation or it's a matter of fact, it may encourage consumers to purchase the brand due to its image. Adoption of the differentiation strategy by firms will ensure that the performance of the firm is increased in terms of product quality, customer satisfaction increased market share and annual sales.

In view of using differentiation strategies the pharmaceutical companies should exploit different ways in which they can make the products and services unique. Technology is one of the tools that firms can employ in differentiating their products and services and also reduces the cost of product differentiation. Technology also improves communication systems between the firms and the targeted consumers hence , this ensures better ways of service delivery and improve distributor and communication channels.

5.5. Limitation of the study

The targeted respondents were the top-level management who are the people responsible for making strategies and decision for the organization however; most of them did not have time to respond to the questionnaire or were unwilling to respond because of different reasons.

The study was also constrained by limited resources both financial and non-financial hence the study had to be focused on a limited number of objectives. Pharmaceutical industry being a very wide industry more factors affect the industry and different strategies are applied by the firms in in competing not only differentiation strategy.

5.6. Recommendations for further studies

This study focused differentiation strategy applied on pharmaceutical companies operating in Kenya. Therefore, the researcher recommends the other two porter (1980) generic strategies that is cost leadership and focus to be replicated in other studies and on pharmaceutical industry and other different industries in Kenya to find out their influence on performance of the firms.

Pharmaceutical industry is wide and one study cannot exhaust the competitive strategies that are applied by firms in competing therefore further studies are recommended to be done on the industry to cover different strategic scopes that are not covered in this study.

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APPENDICES

Appendix I: Questionnaire

This questionnaire is to be answered anonymously. The data collected is for academic reasons. Confidentiality is guaranteed for all information provided.

Kindly respond to all questions Answer as specified by filling in the blank space or ticking where appropriate.

SECTION A: ORGANIZATION DETAILS

1 Name of the company
Physical address
Headquarters of the organization ____________________

How long has the company been in the operating in Kenya__________years.

2 Type of ownership (Tick where appropriate)
Foreign ( )
Local ( )
Both local and foreign ( )

3 What category of the product do your company deal with?
Generics ( )
Originals ( )

4 Which markets do you sell your products?
Local ( )
Export ( )
Local and Export ( )

5 Which category best describes your position in the organization:
Director ( )
Supervisory Staff ( )
Management Staff ( )
Other (Please State) _______________

SECTION B: DIFFERENTIATION STRATEGIES

Tick in the appropriate table with 5 being the most important and 1 being the least important/not in use

		1	2	3	4	5
1	**Value-added products strategies**	1	2	3	4	5
	Our products have distinctive features/characteristics (quality)					
	The company innovates new products regularly to attract customers					
	The organization has adopted new technology to reduce cost of operation					
	The uniqueness of our brands enhances product choice by customers					
	The variety offered by the company has increased reliability of our products in the industry					
	The organization has a corporate reputation on quality					

2	**Service strategies**	1	2	3	4	5
	Providing delivery services to customers					
	Providing advisory services to customers					
	The organization offers a unique service which provides high customer loyalty					
	The organization has personnel skilled in pharmaceutical marketing					

3	**Distribution network strategy**	1	2	3	4	5
	Distribution network is efficient to ensure product accessibility					
	Making a product available to all retail outlets.					
	Good communication channels to ensure customer acquisition and retention					
	Backward/ forward integration within the value chain system of the organization					

4	**Promotional strategies**	1	2	3	4	5
	Going directly to the end user to promote sales					
	Promoting sales through providing samples and gifts indiscriminately					
	Using simple and clear advertising message.					
	Sponsoring activities and events through a given brand(s).					

5	**Marketing Strategies**	1	2	3	4	5
	Introducing a brand to meet specific needs of a given market					
	Introducing Multiple brands to meet unique needs of different customers					
	Introducing a product to people who have not been using it before.					

6 How does these improve performance of the company

Strategy	**Yes**	**No**
Value-added products strategies		
Service strategies		
Distribution network strategy		
Promotional strategies		
Marketing Strategies		

7 since adoption of differentiation strategies in yours firm, what is the status of annual sales
increasing ( )
Decreasing ( )

8 In your opinion are customers happy and satisfied with your organization products
yes( )
No ( )

9 Has the uniqueness of your products/ services influence growth of your firms' market share?
yes ( )
no ( )

THANK YOU

Appendix II: Letter of introduction

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 13/11/2018

TO WHOM IT MAY CONCERN

The bearer of this letter WINNIE ADHIAMBO OMONDI

Registration No. D61/76231/2017

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
13 NOV 2018
P.O. Box 30197 - 00100, NAIROBI

PROF. JAMES M. NJIHIA
DEAN, SCHOOL OF BUSINESS

Appendix III: List of Pharmaceutical Companies

- Alpha Medical Manufacturers
- Alpine Medical & Laboratory Supplies
- Aventis Pasteur SA East Africa
- Bayer East Africa Limited
- BETA healthcare
- Bio deal Laboratories limited
- Bora Biotech Ltd
- Cloriti Pharmaceuticals (E.A) Ltd
- Concepts (Africa) Limited
- COSMOS Pharmaceutical
- Dawa Limited
- Didy Pharmaceutical
- Diversey Lever
- Eli-Lilly (Suisse) SA
- Elys Chemical Industries Ltd
- Europa Healthcare
- Family Medical Supplies Limited
- Galaxy Pharmaceuticals Ltd
- Gesto pharmaceuticals Ltd
- GlaxoSmithKline Pharmaceuticals
- Glen mark Pharmaceuticals
- Globe pharmacy
- Harley's Limited
- High Chem East Africa Ltd
- Infusion (k) Ltd [IKL]
- Ivee Aqua EPZ Limited
- Jaskam & Company Ltd
- Jireh Laboratory Supplies
- Joru Laboratory Suppliers Ltd
- Kentons Ltd
- Laborex
- Laborex Kenya Ltd
- Labulax Supplies
- Lancet Laboratories (2000) Ltd
- Life Resources Enterprises
- Liwajo Diagnostics Ltd
- Lizsol Chem Company Limited
- lnterlake Pharmaceuticals Co. Ltd
- Lued (A) Chemicals Ltd
- Mac's Pharmaceutical Ltd

- Macmed Healthcare (K) Ltd
- Manhar Brothers (Kenya) Ltd
- Medisel Kenya ltd
- Medivet products Ltd
- Medkam Pharmaceuticals E.A Ltd
- Medspan Laboratory Supplies
- Merck Sereno
- Neema Pharmaceuticals Ltd
- Nila Pharmaceuticals Ltd
- Nilson Pharmaceuticals Ltd
- Norbrook Kenya Ltd
- Novartis Rhone Poulenic Ltd
- Novelty Manufacturers Ltd
- Novo Nordica
- Parl Medical Suppliers
- Partec East Africa Ltd
- Pefric (EA) Ltd.
- Pfizer Pharmaceuticals
- Pharmaceutical Manufacturing Co (K) Ltd
- Pharmaceutical Products Limited
- Phillips Pharmaceuticals Limited
- Regal Pharmaceuticals
- Sai Pharmaceuticals
- Signature Healthcare Ltd
- Sphinx Pharmaceutical
- Statim Pharmaceuticals
- Suken International Ltd
- Uni Supplies & Marketing (K) Ltd
- United Pharma (K) Ltd
- Universal Corporation Limited
- Victoria Pharmaceuticals
- Wellmed Pharmaceutical Ltd
- Paramedic & Healthcare Supplies Ltd
- Unisel Pharma (K) Ltd