DIFFERENTIATION STRATEGIES USED BY MICROFINANCE INSTITUTIONS IN KENYA

By

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DECLARATION

This Management research Project is my original work and has not been submitted for another degree qualification of this or any other University or Institution of learning.

Signed------------------------------------ Date-02/11/2005-----

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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 research project to God for the blessings, which have made it possible for me to go through this program.

To my wife Janet, for the support during difficult times. To my sons Michael and Victor and my daughter Caro for being source of my inspiration.

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My appreciation to my supervisor, family, colleagues, friends and all those who contributed in one way or the other towards the completion of this project.

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LIST OF ABBREVIATIONS

NGO	-	Non- Governmental Organisation
MFIs	-	Micro Finance Institutions
AMFI	-	Association of Micro Finance Institutions
CEO	-	Chief Executive Officer
GoK	-	Government of Kenya
ROI	-	Return on Investment

ABSTRACT

Microfinance Institutions are pillars to development of small business and growth of the informal sector in Kenya. They are able to mitigate asymmetric information problems between lenders and borrowers hence increasing access to financial services for people with no traditional collateral hence leading to potential positive impacts on poverty reduction. However, success of MFIs is threatened by reduction in donor support and intense competition in the industry. Given the important role played by MFIs, they need to come up with strategies to face competition by enhancing their competitive advantages. Given that there is no documented study on differentiation strategies employed by MFIs, it was important to conduct a study to determine the differentiation strategies. The objectives of the study were to determine the extent of use of differentiation strategies by MFIs in Kenya and to establish challenges MFIs face in differentiating their services.

The research design was a descriptive survey. The population of interest in this study consisted of all the twenty-seven (27) MFIs in Kenya who were members of the Association of Microfinance Institutions (AMFI). Thus a census was conducted. Primary data was collected using a structured questionnaire, which was analysed using descriptive statistics- the mean, standard deviation, frequencies and percentages.

From the study it was evident that MFIs have carried out augmented service, brand image, product or service, channel and personnel differentiation strategies. Customer orientation showed that the firms were found to understand the customers to a large extent. The perception of the firms on delivering value scored quite low represented by a very low or no extent. Responses indicated that firms were able to provide clients with extensive branch network as well as penetrating the market as a differentiation strategy only to some extent.

Augmented service was applied to a large extent together with brand imaging and channel differentiation while for personnel differentiation firms applied to a large extent. Indications further point to the fact that the applications of differentiation strategies varied among the firms to a very large extent. Provision of quality service attracted respondents but many firms were not keen on first tracking loan processing and carrying out market research to understand customer needs. Most firms cited the cost of carrying out research as the main constraint in understanding customer needs.

Further research is implied on the perception of other financial institutions and their reactions towards practising market differentiation and differentiation strategies especially those who are not members of AMFI.

CHAPTER ONE
INTRODUCTION

1.1 Background

The last century saw a myriad of events occurring; from enforcement of imperial boundaries early in the century to the loss of the same powers after fifty years or so, the fight of fires in two world wars and the culmination of the wars to a cold one and the eventual disintegration of Russia the symbol of communism (Harris, 1999). Economically, these activities seemed to nurture the West or if it was wounded then its systems were more apt at facilitating a healing process. The rest of the world now faces abject poverty characterised by lack of basic needs for their citizens, slow economic growth which leads to unemployment, wastage in social and human capital as well as war occasioned by the struggle for the already strained natural resources. Indeed as a World Bank report noted, in the 1950's, most developing nations were barely emerging from colonial dependency; many were enmeshed in political difficulties; and the vicious circle of poverty seemed to be all but inescapable. The economic picture in the developing countries is also uneven. Almost a billion people continue to live in extreme poverty. Growth rates in the poorest developing nations are insufficient to make a real dent in alleviating, much less eradicating, such poverty. Under these conditions, the poor countries continue to press for what they term a new international economic order. This new order would involve important concessions by the rich countries for the economic benefit of the poor countries in such areas as trade, international monetary affairs, use of the seas and Antarctica, transfers of technology, availability of capital, cancellation of debts, and commodity prices (World Bank, 1977).

It is against this background that Non-Governmental Organisations (NGOs) decided to find ways through community based projects of complementing and supplementing government efforts toward direct poverty eradication strategies. When the citizens were empowered economically the world started seeing their effort. In Latin America and Asia cottage industries developed while closer home the Jua Kali industry emerged. To sustain this cause however, skills were required on funds revolution and availability that the NGOs tied by operational and logistical issues would not provide. It is the Micro Finance sector, which has so aptly filled the lacuna.

1.1.1 Differentiation Strategy

Aaker (1984) defines a differentiation strategy is one in which a product is different from that of one or more competitors in a way that is valued by the customers or in some way affects customer choice. A successful differentiation strategy allows the firm to earn above the average returns. Aaker (1984) further argues that a differentiation strategy is often but not always associated with higher price because it usually makes price less critical. It provides the organization with insulation to competitors because of brand loyalty and the need to overcome the uniqueness. Differentiation strategy has successfully been used to build customer loyalty and compete effectively in the market. Through differentiation a customer is given reason to choose the brand and not any other service or products.

Although all products or services can be differentiated not all brand differences are worthwhile or meaningful to customers (Kotler 2000, Porter 1980, Aaker 1984). The challenge is to establish a difference that is relevant to customers. An organization is also faced with a challenge of how many differences to promote (Aaker, 1984). This will help an organization to avoid the risks of over-positioning, under positioning, confused positioning and doubtful positioning. In addition, success of a differentiation strategy lies in adopting a differentiator that is important to customers, distinctive, superior, pre-emptive, affordable and profitable.

1.1.2 Micro Finance Institutions (MFIs)

Ledgerwood (1998) defines microfinance as the provision of financial services to low-income clients, including self-employment where financial services include savings and credit but also acknowledges that this could be extended to micro-insurance and payment services. In addition, Ledgerwood acknowledges that microfinance institutions also offer social intermediation services such as group formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group. Microfinance is not simply banking it is a development tool.

According to studies conducted by Mugwanga (1999), Wright and Adondo (2002), microfinance activities usually involve: small loans, typically for working capital, informal appraisal of borrowers and investments, collateral substitutes, such as group guarantees or compulsory savings, access to repeat and larger loans based on repayment performance, streamlined loan disbursement and monitoring and secure savings products. Although some MFI(s) offer enterprise development services such as training skills and marketing, and social services such as literacy training and health care, these are not generally included in the definition of micro finance.

Microfinance institutions are mainly NGOs but may also be Savings and Loan Cooperatives, Credit Unions, Government banks, Commercial Banks and non-bank financial institutions. Microfinance clients are mainly entrepreneurs in micro enterprises e.g. traders, hairdressers, artisans, small producers, hawkers/street vendors, carpentry and furniture makers. Their activities provide a stable source of income. Although they are poor they are generally not the poor of the poorest.

Since 1980s the field of microfinance in Kenya has grown substantially winning a lot of government and donor support. Donors focus on MFIs that are committed to achieving substantial outreach and financial sustainability. Today the focus is on providing financial services while in 1970s and much of the 1980s were characterized by an integrated package of credit and training, which required subsidies. Recently microfinance NGOs such as Kenya Rural Enterprise Programme (K-REP) have begun transforming into formal financial institutions that recognize the need to provide savings services to their clients and to access market-funding sources rather than rely on donor funds. Generally, microfinance has evolved as an economic development approach intended to benefit low-income women and men.

Microfinance Institutions are at different stages of development in East Africa. Its best developed in Kenya, relatively young in Uganda while it is poorly developed in Tanzania. The MFIs in Uganda did not develop until 1993. However, the growth of this industry rapidly picked up. Currently there are several MFIs with over 3,000 memberships. The regulatory framework of Tanzania did not encourage private sector development until after the government adopted a policy of private sector development. PRIDE TANZANIA is the biggest in terms of client base and outreach. The industry is slowly picking up.

Between 1960s and 1970, microfinancing in Kenya was only a church based initiative. Foundations of the industry were laid in 1980s through establishments of NGOs such as K-REP and Kenya Women Finance Trust (KWFT). After liberalization in 1990s the industry experienced rapid growth. This has been the case to this day where we have several MFIs with thousands of memberships. Most of the NGOs are based on Grameen Bank Model (Mugwanga, 1999).

In Kenya MFIs face several challenges in trying to achieve institutional objectives of financial sustainability while serving the poor. These include high drop out rates, reduced donor support and stiff competition (Kashangaki, 1999). Competition is as a result of rapid increase of players in the industry who are targeting the same customer. In Kenya, formal banks have identified the small business segment as a lucrative market and are now engraving into the sector in a big way. Interest rates have gone down and banks have relaxed their lending rules, which used to prevent many small business people from securing loans (Wright, 1999). Further competition has emerged from the diminishing boundary between Microfinance Institutions and Savings Co-operative and Credit Societies i.e. Saccos (Saturday Nation, 23rd July, 2005). Saccos have expanded to offer financial services traditionally offered by MFIs. Due to lack of regulation in this industry, very many players who are unguided by professional ethics have entered the market. They have attracted customers through promising what they do not deliver and have ended up conning their customers (Saturday Nation 23rd July, 2005). This has caused a huge outcry from the public with the Association of Microfinance Institutions (AMFI) calling on the government to curb the vice.

According to Wright (1999), a microfinance client today has the power to choose their supplier. Success of any MFI depends on the strategies it adopts to stay ahead of competition, deliver value to customers and gain customer loyalty. Some MFIs are abandoning the joint liability system with individual based collateral increasing popularity. Wright (2002), argues that this is aimed at trying to capture the markets that are against group lending. MFIs are acknowledging that dropouts are a critical factor that hinders out-reach and leads to financial and social costs (Wright and

Adondo, 2002). Some MFIs have started a tracking system to establish causes of exit. However, the issue of drop out has not been actively addressed. According to MicroSave's Research Papers, (1999-2002) some MFIs have acknowledged the need to be different from competition. To achieve this, they are working with donor and other agencies to come up with market led products and services, which would help, differentiate them from the competition.

1.2 Statement of the problem

Microfinance Institutions are pillars to development of small business and growth of the informal sector in Kenya. They are able to mitigate asymmetric information problems between lenders and borrowers hence increasing access to financial services for people with no traditional collateral hence leading to potential positive impacts on poverty reduction. However, success of MFIs is threatened by reduction in donor support and intense competition in the industry.

Studies by Hulme and Wright (1999), on drop out rates established that major causes of drop out are customer dissatisfaction and clients switching to other MFIs. There is also a trend of clients belonging to more than one MFI (Hulme, 2002). This is a clear indication of stiff competition and lack of customer loyalty. It could also indicate that client perceive all MFI to be one and the same. In addition the microfinance sector is not properly regulated (Anita, 2000). This has led to entrant of many players where some operate informally. These informal players have reduced the turn around time and have flexible rules. This has posed a major challenge to the formal players making it difficult for them to compete effectively. Due to the challenge of financial sustainability, most MFIs are focusing on the "not so poor' clientele. The commercial banks are also trying to capture the small business market through reduced interest rates and collateral requirements. Therefore for any MFI to succeed in the current turbulent market, it must stand out from the rest in order to win and retain customers.

Given the important role played by MFIs, they need to come up with strategies to face competition by enhancing their competitive advantages. Body of current literature emphasizes the importance of MFIS to be client-centred rather than product-centred organization in order to overcome the challenges of client dropouts and limited outreach (Dunn et al, 2000). The innovation in methodologies used in development of MFIs assumes a largely homogenous market for financial services among the poor and a specific demand structure within this homogenous market (Wooller, 2002). There is an agreement that there is need for MFIs to be customer centred to face competition (Wright, 2002; Hulme, 2002; Wooller, 2002 and Dunn, 2000).

Differentiation is based on understanding what customers value, provides the firm with competitive advantage and increases customer loyalty (Kotler, 2000; Aaker 1984; Finlay 2002 and McCarthy, 2002). There is no documented information available on differentiation strategies that MFIs have adopted. Riungu (2002) looked at the segmentation practices of MFIs but did not touch on differentiation as a competitive strategy. Lengewa (2003) studied broadly on all competitive strategies adopted by MFIs in Kenya. This study did not explore the differentiation strategy in depth. Kibiru (1999) studied on differentiation strategies but focused on the manufacturing sector where differentiators are mainly on the physical product. This may not wholly apply to the service sector.

Given that there is no documented study on differentiation strategies employed by MFIs, it was felt necessary to conduct a study to determine the differentiation strategies they use because one cannot assume that they do not have any. The study therefore, sought to answer the following research questions:-

a) Which differentiation strategies do MFIs use?
b) What are the challenges that MFIs use in differentiating their services?

1.3 Objectives of the study

The objectives of the study were as follows:

a) To determine the extent of use of differentiation strategies by MFIs in Kenya.
b) To establish challenges MFIs face in differentiating their services.

1.4 Importance of the study

Findings of this study may be useful to the following:

a) *Management of Micro finance Institutions*:

Findings of the study may be useful in strategic management of these organizations on ways to stay ahead of competition and build customer loyalty.

b) *Researchers and academicians*:

The study will contribute to the knowledge of management of statutory corporations. It will also offer a basis for further academic investigations into the areas of differentiation and MFIs.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter focuses on the review of literature related to this research. This was done with a view to collecting views, perspectives and opinions on the need for skills in Human Resource managements. The review depended on theoretical literature that was, books, research papers, magazines and information from the Internet

2.2 The Concept of Strategy

Strategy may be defined as the broad program of goals and activities to help a company achieve success. Strategy is the match between organisation's resources and skills and environmental opportunities and risks it faces and the purposes it wishes to accomplish (Schendel & Hofer, 1979). This statement emphasises that the environment is constantly changing and it is imperative that organisations have to constantly realign their activities to match with the new environmental requirements. Having a strategy ensures that day-to –day decisions are in line with the long-term pursuits of the organisation. Without a strategy, decisions made today could have a negative impact on future results (Bruce & Langdon, 2002).

A company's competitive strategy consists of the business approaches and initiatives it undertakes to attract customers and fulfil their expectations, to withstand competitive pressures and to strengthen its market position. As such one of the approaches of achieving a distinct competitive strategy is through a differentiation strategy (Porter, 1980).

2.3 Meaning and Role of Differentiation

Thompson and Strickland (2001), define a differentiation strategy as that which seeks to differentiate the company's product offering from rivals' in ways that will appeal to a broad spectrum of buyers. Further, they explain that differentiation strategy could be regarded as concentrating on a narrow buyer segment and out competing rivals by offering niche members customised attributes that meet their tastes and requirements better than their rival products. Kotler (2000), defines differentiation as the act of designing a set of meaningful differences to distinguish the company's offering from competitors offering. Differentiation strategy is one in which a product is different from that of one or more competitors in a way that is valued by the customers or in some way affects customer choice (Aaker,1984). Porter (1985) looks at differentiation as creating a product or service offering that is perceived industry wide as being unique. On the other hand, according to Haarla (2000), differentiation is a position in which the offer of a given competitor has some valuable distinctive characteristics for the customer. From the aforesaid definitions by various authors, it is clear that any differentiation strategy should provide something unique, which is perceived to be so by customers, and the difference should provide value to customers.

Kotler (2000), Haarla (2000), Aaker (1984), Finlay (2002) and McCarthy (2002), concur that differentiation is based on understanding what customers value, provides the firm with a competitive advantage, allows the firm to command a premium price and increases brand loyalty. The more the company's differentiated offerings appeals to the buyers the more the customers bond with the company and the stronger the resulting competitive advantage. Therefore, differentiation is an attractive competitive approach whenever buyers' needs and preferences are too diverse to be fully satisfied by standardised products or by sellers with identical capabilities.

Generally it is agreed that a difference is stronger to the extent that the differentiator is important, distinctive, superior, pre-emptive, affordable and profitable. The difference should deliver a highly valued benefit to a sufficient number of buyers who in return are willing to pay a premium for it. It should also be delivered in a distinctive way. It should not be easily copied even if it is for a short time. This is only possible if the differentiator is superior to other ways of obtaining the benefit. However, the customer affords to pay for the difference. In addition the company is rewarded for its uniqueness with loyalty and a price premium (Porter, 1990; Aaker, 1987).

It is therefore worthwhile that a firm considers the strength of each difference to discover whether the above criteria can be fulfilled. Differentiation attributes are likely to be applied by a company along the value chain in a holistic view and neither can it be regarded as a concept hatched for some departments or functions or limited to the catchall of quality and service. Accordingly, Deep house (1999), stated that possibilities of differentiation would be seen in three main areas. The first one is purchasing and procurement (supply chain management) with the spill over of the quality of the end product. Mc Donald gets high ratings for its French fries partly because of its very strict specifications on potatoes purchased. The second area is products (R&D) activities aimed at improving the product designs, performance features variety and friendliness. Finally are the marketing, sales and customer service activities resulting in superior technical assistance to buyers, better information to customers, and better credit terms.

According to Kotler (2000), differentiation is more effective if firm differentiates along the five dimensions: product, services, personnel, channels, image and price. Aaker (1987) goes further to include quality option, brand awareness, brand associations, customer orientation, brand loyalty, product line breadth, and technical superiority. Kotler (2000) itemises the variable under each dimension as follows.

2.4 Meaning and Characteristics of Services

Zeithamn and Parasuraman (1996), defines services are deeds, processes and performances. Kotler (2000), defines a service as any act of performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Services include all economic activities whose output is not a physical product, is generally consumed at the time it is produced and provides added value in forms that are essentially intangible concerns of its first purchaser. Microfinance industry is service driven.

Services have four main characteristics that distinguish them from physical goods and have market implications. Berry (1980) itemises four characteristics as follows; The key characteristic is *intangibility.* Services cannot be seen, felt, tasted or smelt before purchase. Service quality is not easy to evaluate. To reduce uncertainty and risks customers look for signs or evidence of service quality. Customers infer quality from interaction with personnel, equipment, communication materials and service environment. The second challenge is *inseparability.* Services are produced and consumed at the same time. Customers are present during production and may also affect the production process. Customers may also interact with each other affecting each others' experience. This also restricts mass production. The third characteristic is *perishability.* Services cannot be produced in advance, saved, stored, resold, or returned. This poses a challenge in synchronizing demand. Demand forecasting and creative planning for capacity utilization are therefore important and challenging decision areas. The fourth characteristic is *heterogeneity.* Services are performances, frequently produced by humans; no two services will be precisely alike. Service delivery and customer satisfaction depend on employee actions while knowledge that the services delivered matches what was planned and promoted.

According to Kotler (2000), excellently managed service companies have a strategic concept, a history of top management to quality, high standard systems of monitoring service performance, customer complaints and an emphasis on employee satisfaction. Management of the service process leads to customer satisfaction hence customer loyalty.

2.4.1 Product Differentiation

Physical products vary in their potential for differentiation (Kotler, 2000). At the extreme we find products, which allow little variation: steel, aspirin, chicken (Levvit, 1980). Yet even here some differentiation is possible. At the other extreme are products capable of high differentiation. Parameters of differentiation include product form and design referring to product size, shape, physical structure and style.

Most products can be offered with varying features that supplement the product's basic function. Being the first to introduce valued new features is one of the most effective ways to compete. Oral – B managed to differentiate its toothbrush by introducing a blue dye in the centre bristles that fades and tells customers when they need a new toothbrush, (Carpenter, 1989). Most products are established at one of four performance levels: low, average, high, or superior. Performance quality is the level at which the product's primary characteristics operate. The important question here is whether offering higher product performance produce higher profitability. The strategic Planning institute studied the impact of higher relatives product quality and found a significantly positive correlation between relative product quality and return on investment (ROI) (Aaker, 1991).

Aaker (1991), came up with five key product differentiation features. These are conformance quality, durability, reliability and reparability.

Conformance Quality - Buyers expect products to have a high conformance quality, which is the degree to which all the produced units are identical and meet the promised specifications. Suppose a Porsche 944 is designed to accelerate to 60 miles per hour within 10 seconds. If every Porsche 944 coming off the assembly line does this, the model is said to have high conformance quality. The problem with low conformance quality is that the products will disappoint some buyers (Schmitt & Simonson, 1997).

Durability - a measure of the product's expected operating life under natural or stressful conditions, is a valued attribute for certain products. Buyers will generally pay more for vehicle and kitchen appliance that have a reputation for being long lasting. However, this rule is subject to some qualifications. The extra price must not be excessive. Further more, the product must not be subjected to rapid technological obsolesce, as is the case with personal computers and video cameras.

Reliability - Buyers normally will pay a premium for more reliable products. Reliability is a measure of the probability that a product will not malfunction or fail within a specified time period. Maytag, which manufactures major home appliances, has an outstanding reputation for creating reliable appliances.

Reparability - Buyers prefer products that are easy to repair. Reparability is a measure of the ease of fixing a product when it malfunctions or fails. An automobile made with standard parts that are easily replaced by high reparability. Ideal reparability would exist if users could fix the product themselves with little cost in money or time. Some products include a diagnostic feature that allows service people to correct a problem over the telephone or advise the user how to correct it. Many computer hardware and software companies offer technical support over the phone, or by fax or e – mail. Consider the steps taken by Cisco.

Design: The Integrating Force - As competition intensifies, design offers a potent way to differentiate and position a company's products and services. In increasingly fast – paced markets, price and technology are not enough. *Design* is the factor that will often give a company its competitive edge. It is the totality of features that affect how a product looks and functions in terms of customer requirements.

Different dimensions emerge in service business due to the fundamental differences between tangible goods and services. Researches on service quality have identified five service dimensions as tangibles, reliability, responsiveness, competence and empathy (Parasuraman 1988). *Tangibility* is the appearance of physical facilities, communication materials, equipment and personnel. *Reliability* refers to the ability to perform the promised service dependably and accurately. *Responsiveness* is the willingness to help customers and provide prompt service. *Competence* is the knowledge and skill of employees and their ability to convey trust and confidence.
Empathy is the caring, individualized attention that a firm provides its customers. These service quality dimensions are based on customers' evaluation of the outcome, interaction with the personnel and physical environment. The offering or the product available to a microfinance customer will not subscribe to some form of differentiation variables indicated above. Differentiation in microfinance is likely to take the five dimensions to a great extent compared to tangible products.

2.4.2 Augmented Services differentiation

When the physical product cannot easily be differentiated, the key to competitive success may lie in adding valued services and improving their quality. The main service differentiators are ordering ease, delivery, installation, customer training, customer consulting, and maintenances and repair (Kotler, 2000).

Ordering Ease- Ordering ease refers to how easy it is for the customer to place an order with the company. Baxter Healthcare has eased the ordering process of supplying hospitals with computers terminals through which they send orders directly to Baxter. Many banks now provide home banking software to help customers get information and do transactions more efficiently. Consumers are now even able to order and receive groceries without going to the supermarket.

Delivery- Delivery refers to how well the product or services are delivered to the customer. It includes speed, accuracy, and care attending the delivery process. Today's customers have grown to expect delivery speed: pizza delivered in one – half hour, film developed in one hour, eyeglasses made in one hour, cars lubricated in 15 minutes. A company such as Deluxe Check Printers, Inc., has built an impressive reputation for shipping out its checks one day after receiving an order – without being late once in 18 years. Levi Strauss, Benetton, and The limited have adopted computerized quick (Easton, 1992).

Customer Training- Customer training refers to training the customer's employees to use the vendor's equipment properly and efficiently. General Electric not only sells and installs expensive x – ray equipment in hospitals; it also gives extensive training to users of this equipment. McDonald's requires its new franchisees to attend Hamburger University in Oakbrook, Illinois, for two weeks, to learn how to manage their franchise properly.

Customer Consulting- Customer consulting refers to data, information systems, and advice services that the seller offers to buyers. One of the best providers of value adding consulting service is Milliken & Company (Easton, 1992).

Maintenance and Repair- Maintenance and repair describe the service program for helping customers keep purchased products in good working order. Consider Hewlett – Packard's e – support system. Miscellaneous Services also play a role towards successful differentiation. Companies can find other ways to differentiate customer services. They can offer an improved product warranty or maintenance contract. They can offer rewards. Macmillan and McGrath say companies have opportunities to differentiate at every stage of the consumption chain. They point out that companies can even differentiate at the point when their product is no longer in use.

2.4.3 Personnel differentiation

Companies can gain a strong competitive advantage through having better – trained people. Singapore Airlines enjoys an excellent reputation in large part because of its flight attendants. The McDonald's people are courteous, the IBM people are professional and the Disney people are upbeat. The sales forces of such companies as General Electric, Cisco, Frito – lay, North -Western mutual Life, and Pfizer enjoy an excellent reputation. Better – trained personnel exhibit six characteristics: Competence: They possess the required skill and knowledge; courtesy: They are friendly, respectful, and considerate; credibility: They are trustworthy; reliability: they perform the service consistently and accurately; responsiveness: they respond quickly to customers' request and problems: and communication: they make an effort to understand the customer and communicate clearly. Berry (1980), must have foreseen this when he stated there was need to apply philosophy and practises of marketing to people who serve external customer so that the best people are employed and retained so that they do the best work possible. There is no doubt that customer care requires passion thus making customer focus a vital differentiator.

2.4.4 Channel differentiation

According to Kotler (2000), companies can achieve competitive advantage through the way they design their distribution channel's coverage, expertise, and performance. Caterpillar's success in the construction – equipment industry is based partly on superior channel development. Its dealers are found in more reliably. Dell in computers and Avon in cosmetics distinguish themselves by developing and managing high – quality directly – marketing channels. Iams pet food provides an instructive case on how developing a different channel can pay off (Easton, 1992).

2.4.5 Image differentiation

According to Borden (1965), buyers respond differently to company and brand images. The primary way to account for Marlboro's "macho cowboy" image has struck a responsive chord with much of the cigarettes – smoking public. Wine and liquor companies also work hard to develop distinctive images for their brands. Identity and image need to be distinguished. Identity comprises the ways that a company aims to identify or position itself or its product. Image is affected by many factors beyond the company's control, as the case of vans' counterculture marketing versus Nike, Reebok, and Adidas shows. An effective identity does three things. First, it establishes the product's character and value proposition. Second, it conveys this character in a distinctive to work; it must be conveyed through every available communication vehicle and brand contact. It must be worked into ads and media that convey a story, a mood, a claim – something distinctive. It should be diffused in annual reports, brochures, catalogues, packaging, company stationery, and business cards. If "IBM means service", this messages must be expressed in symbols, colours and slogans, atmosphere, events, and employee behaviour (Borden, 1965).Two brands can confuse customers if they do not have distinguishing features. Keller (1998). A brand is a name, symbol, design or a combination, which help to simplify buying decisions by customers (Baker, 1992)

2.4.6 Customer orientation

Many companies claim to be customer focus. The problem is to distinguish between lip service and a meaningful culture and set of programs that together represent a meaningful competitive advantage (Aaker, 1991). Aaker goes ahead to stipulate that customer driven firm is built on pillars. The first pillar is an in-depth understanding of the customers based on customer contact and market research. The second one is a clear idea about what the organisation wants customer perceptions to be and what they actually are and why. The third pillar is that the business should make sure that it is delivering quality or value by measuring customer satisfaction and reacting to the resulting input.

2.4.7 Price

There exists two divergent views about price and whether it can be differentiated. Aaker (1982) believes that price is a component within the mix with equal differentiation capabilities such as target, product, service and image. The same thought has been put forward by Naggle and Holden (1995). As if to differ from the above Blois (2000), opines that prices will only determine customers' choice to the extent that they do not view the offerings as differentiated. Sometimes prices may turn out to be a subjective impression rather than an objective fact. Customers may believe that a nationwide plumbing service, with liveried vans that can be instantly summoned, would charge a lot more than the local handyman who responds at his own leisure. Yet the nationwide business might turn out to be cheaper of the two. All in all, the less differentiated the offering is, the less the latitude the seller has to set prices.

2.5 Differentiation strategies and Micro Finance Institutions

There has been little research activity in this are especially where marketing is concerned. This could be attributed to lack of proper motivation on the part of the players and wait and see approach on the part of the researchers. The market for micro finance is naturally segmented. Whether this arrangement is by design or by default time will tell (Verhagen, 1988).

This increasingly competitive and varied marketplace is beginning to be reflected in a growing number of countries worldwide. This represents an important change, since until the late 1990's; most micro finance institutions did not have to worry about competition. Many enjoyed near monopolies and saw huge untapped markets before them. The idea of competing for clients was very far from the mindset of early micro finance institutions. This period of low competition allowed microfinance institutions the freedom to focus single-mindedly on making the breakthroughs in methodology and management necessary to reach scale and sustainability (Amit and Shoemaker, 1993).

However, recent years have seen competition amongst micro finance institutions growing in many marketplaces round the world, with Bangladesh, Bolivia and Brazil acknowledged to have particularly competitive environments. These market places offer an opportunity to learn about the effects of competition on microfinance institutions and their clients. This has seen micro finance institutions adopt marketing differentiation strategies as they deemed fit.

Market channelling seems to be the most exploited strategy micro finance institutions focused on using the group-based lending methods, evidence from Bolivia suggests that there is still a potential to serve niche markets. Among micro finance, performance has been varied. The performance of two institutions, Pro Mujer and Crecer, has been noteworthy. These institutions have grown steadily while maintaining strong portfolio quality. Both institutions are village-banking programs aimed at women. Crecer works in remote rural areas, while Pro Mujer works in urban areas. Their success may be attributable to two principal factors. First, they aim at a less hotly contested portion of the microfinance market, segmenting the market by gender and poverty level, and in the case of Crecer also by geography (Rhyne, 2002).

Identifying and focusing on less contested market niches has proved a viable strategy is Bolivia, "At the same, time, the institutions are seeking new types of clients. One of the clearest trends is the move up-market to small business lending, where it is perceived that the competition is not as strong, particularly as commercial banks are assumed to be retreating from this market" (Rhyne, 2002). This move is beginning to be reflected in Bangladesh, as micro finance institutions seek new approaches to serving both poorer clients and the small businesses previously excluded by targeting strategies. This move may also be reflected in Uganda as micro finance institutions move increasingly towards individual-based lending. Elsewhere, the microfinance industry in Brazil has faced an overwhelming opportunity—a vast number of lower-income micro entrepreneurs who have relatively few credit options within their reach. The goal of sustainability should not be understood as conflicting with a focus on lower-income clients (Rhyne, 2002). Though many Brazilian Micro finance may not effectively reach the lower-income segment of the market. In fact, many institutions primarily serve micro entrepreneurs with relatively high incomes—though few of them do so intentionally. Some profit-seeking institutions actually do explicitly target higher-income micro entrepreneurs.

Microfinance has been referred to as perhaps the only industry in the world that has managed to survive and even grow over time while using a product-driven approach (Adams and Fitchett, 1992). Indeed microfinance institutions in many countries for years offered just one product, short-term working capital loans with the assumption that micro entrepreneurs had no other access to financing and that this was the product they needed. Indeed, Rahman (2003), posited that though there have been no remarkable promotional measures for boosting microfinance carried out in Bangladesh (a showcase of microfinance activity), efforts are more stronger than in the past towards mobilizing local resources by bringing in various savings and credit products. The savings products of microfinance institutions now include daily savings, mandatory savings, voluntary savings, contractual savings, and time deposits. The microfinance institutions are also trying to become more responsive to the demand for credit facilities. Over time, the credit products have been diversified. Today there exists more than 15 credit products including daily credit, leasing loans, housing loans etc.

When confined to the highly competitive market niche (typically working capital loans for market traders) perhaps the most obvious strategy for microfinance institutions to adopt might be to differentiate themselves on the basis of price. This has indeed happened in Bangladesh where the interest rates on the standard one year microfinance institutions loans has been falling since the mid 1990s (Wright, 2000). Similarly, in Bolivia, Rhyne found that, "For the first time there was some evidence that at least some customers would switch institutions on the basis of price. For example, in 1994, a time of very low competition, BancoSol's yield on portfolio was 50 percent. By 1998, the yield had fallen to 33 percent and by 2001, it was 24 percent. At Caja Los Andes, yield fell from 40 percent in 1995 to 25 percent by 2001 and yields at Prodem and FIE in 2001 were even lower (22 percent). Not only did yields fall over time, they narrowed, as institutions priced their services on a competitive basis rather than on the basis of their own internal cost factors" (Rhyne, 2002). The implications for the Ugandan market, where most micro finance institutions are still struggling to achieve basic operational sustainability, in the face of high cost structures, are significant (Obwona, 1999).

2.6 Challenges of differentiation

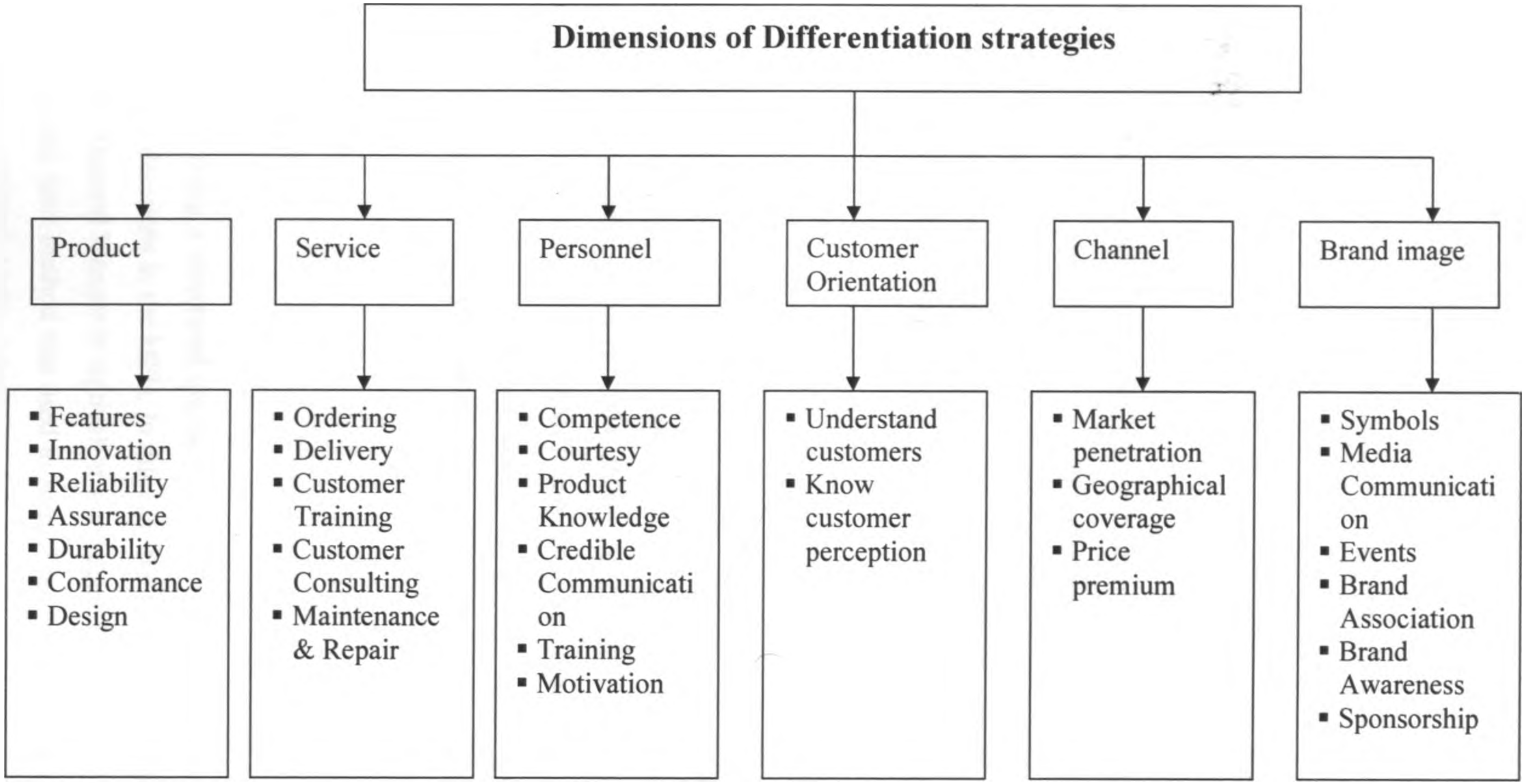
Firms will encounter several challenges while they seek to differentiate their offerings. These challenges will manifest differently depending on the nature of the offering; whether it is a product or service and the type of market in which the firm operates. In reference to MFIs the challenges are more visible and have a direct bearing on the effectiveness of a differentiation strategy adopted by such organisations. According to Rylie (2001), the environments in which MFIs operate are likely to be affected by a variety of adverse conditions, such as political instability or uncertainty; financial crisis in the financial system; liquidity problems; and natural disasters. NGOs, when funded from outside, can isolate themselves from several of these contextual realities, especially those affecting the financial systems. Additionally, the environment in most countries will become increasingly competitive, with players from within and outside the microfinance field. He further continues to state that the MFI market has several facets to its definition. Thus provision of microfinance is evolving from focusing only on micro entrepreneurs to reaching the working poor. This evolving definition includes salaried workers and others with need for capital (for education, home improvement, etc). As regulated microfinance institutions expand their operations towards a full service approach, their loan products reflect this new definition of the market.

Most MFIs are still struggling with proper regulation both internally and externally. (Rhyne, 2002) posits that governance of regulation Microfinance Institutions is a key challenge which represents as lack of policy and framework both legal and economical. These would translate to mean that effective market differentiation might not be easy to achieve because of this setback.

Finally, MFIs survive on lean financial resource bases. (Obwona, 1999) calls them socially responsible institutional investors. Further, if liquidity problems in the financial system occur, as they will more often than not, they will require rapid response because, unlike banks, MFIs cannot stop lending for a period without seriously affecting their performance.

2.7 Summary of Differentiation Strategies

Fig 1 – Dimensions of Differentiation Strategies



CHAPTER THREE
RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter describes research design, targeted population, sampling procedure and data collection instruments, which were used in the study.

3.2 Research Design

This was a descriptive survey intended to establish the extent to which MFIs apply market differentiation strategies. According to Donald and Pamela (1998), such a study concerned with finding out, who, what, which and how of a phenomenon is a descriptive design, which is the concern of the current study. Njoroge (2003) has used the descriptive design in a related study.

3.3 Population

The population of interest in this study consisted of all Micro Finance Institutions (MFIs) in Kenya who were members of the Association of Microfinance Institutions (AMFI). According to the AMFI report of 2004, there are 27 MFIs who were members of the Association. The list from AMFI was considered because the members were more formal in their operations and they operated under some regulatory framework provided by the Association. Given that the membership was small, a census study will be conducted.

3.4 Data Collection Method

Primary data was collected using a structured questionnaire. The respondents were persons that make strategic decisions in the MFIs. In this case the CEO of the firm or the person of the rank of a General Manger or equivalent was targeted to complete the questionnaire. Drop and pick later method was used to administer the questionnaire. Follow-up was done via personal visits, telephone calls or e-mails to facilitate responses and also enhance the response rate. The questionnaire was divided into 3 parts. Part A was used to obtain general data of the firm under survey. Parts B contained questions aimed at determining the extent to which MFIs apply differentiation strategy. Part C gathered data on challenges MFIs face in differentiating their services.

3.5 Operationalizing Differentiation Strategy

The variables as shown in appendix 3 will help in operationalising the possible differentiation strategies used in the microfinance sector. The questionnaire mainly uses the Five point likert scale to measure the extent to which differentiation has been applied in this sector. Open-ended questions have also been used to establish the challenges and any other information not captured in the structured questions.

3.6 Data Analysis Techniques

Descriptive statistics was used to analyse the data. Data in section A and B of the questionnaire was analysed using frequency distribution, percentages mean score and standard deviation. Section C was through categorization and percentages.

CHAPTER FOUR
DATA ANALYSIS AND FINDINGS

4.1 INTRODUCTION

This chapter contains summaries of data findings together with their possible interpretation. The chapter is divided into three sections two of which are related to the objectives of the study. The first section analyses the general information of micro-finance institutions. The second section analyses the extent to which different differentiation strategies are used by MFIs in Kenya. The third section analyses the challenges faced by MFIs in their bid to differentiate their offering.

A total of twenty seven (27) questionnaires were distributed to the respondents, out of which twenty five (25) responded by completing and returning the questionnaires. Two (2) did not respond. This gave a response rate of 93% and a non-response rate of 7%. Further the high rate of response is large enough to validate the sample for the study.

4.2 General Information on MFIs

Respondents were asked to indicate the length of time their firms have been in operation in order to range organizational experience harnessed by the MFIs. Table 1 shows that a majority of the firms (76%) had been in the market for at least 10 years. This is a confirmation that active MFI participation in the financial market begins around the 1980.Respondents were supposed to indicate the level of customer base so as to show their reach within the market. The table shows that 36% of the respondents had a customer base of 1,000 – 10,000 customers, 54% had between 10,000 – 30,000 while the remaining 20% had quite a large base of over 30,000. On average it can be stated that MFIs responding had a significant reach on the market. The researcher sought to know the various threshold levels that lending was carried out. To this end the respondents indicated that their firms presented a notable variation in the amounts lent. Minimum loan amount was as low as Kshs. 10,000 with 56% respondents disbursing such amounts. This was most likely disbursed to individual customers. Kshs. 1 million was the higher limit for this bracket with a mere 12% of the MFI said to disburse this amounts.

Table 1: General Information MFIs

Duration of operation	Frequency	Percentage
5-10 years	6	24
11-15 years	7	28
16-20 years	7	28
Above 20 years	5	20
Total	**25**	**100**
Active customer base		
1,000 – 10,000	7	36
10,001 – 20,000	6	24
20,000 – 30,000	5	20
0ver 30,000	5	20
Total	**25**	**100**
Total number of active groups		
10,001 – 20,000	4	16
20,000 – 30,000	6	24
Over 30,000	15	60
Total	**25**	**100**
Types of customer served individual customers		
Serves	22	88
Does not serve	3	12
Total	**25**	**100**
Groups		
Serves	25	100
Saccos		
Serves	17	68
Does not serve	8	32
Total	**25**	**100**
Minimum Loan		
Below Kshs.10,00	14	56
Kshs. 10,001-50,000	8	32
Kshs. 50,001-100,000	3	12
Total	**25**	**100**
Maximum Loan		
Kshs. 10,001-50,000	3	12
Kshs. 50,001-100,00	1	4
Kshs 100-001-500,000	12	48
Kshs. 500,000-1,000,000	4	16
Over Kshs.1,000,000	5	20
Total	**25**	**100**
Number of loan products		
Four	6	24
Five	7	28
More than 5	12	48
Total	**25**	**100**
Charges levied by MFIs on Products\services		
Pass Book Fee	25	100
Membership Fee	16	64
Loan Insurance Fund	16	64
Disbursement Fee	25	100
Monitoring Fee	23	92
Loan Processing Period		
7 days or below	2	8
8-14 Days	5	20
15-21 Days	8	32
22-28 Days	5	20
Above 28 Days	5	20
Total	**25**	**100**
Loan Repayment Period		
Monthly	5	20
Weekly or Monthly	20	80
Total	**25**	**100**

Pertaining to group sizes, 36% of the respondents had a customer base of 1,000 – 10,000 customers, 54% had between 10,000 – 30,000 while the remaining 20% had quite a large base of over 30,000. On the same level, when the respondents were prompted to indicate which type of customers they served, they stated the categories as individual customers, groups or Saccos with only 12% of the responding firms preferring not serve individual customers, all of them serve group customers with 68% of them serve Saccos and 32% do not serve the Saccos. These are deduced from table 1 above.

With regard to security for loans offered, 6 of MFIs required an express security for the loan. Other security demands were stated as a post dated cheque to cover the loan, running a legal business within the area of operation, show evidence for operational efficiency and be registered with the GoK among other conditions. Individual borrowers were required to be gainfully employed on the long term, be Kenyan citizens and be members of groups meeting regularly. The number of respondents calling for such requirements ranged from 2-13.

The underlying operation in MFIs is the mobilization of savings, which are then used as source of lending of customers. To this end, customers must be able to maintain accounts with the respective MFIs for legibility in borrowing. On the other hand it is prudent financial management practise that savings be properly protected so as to ensure that obligatory and regulatory standards are maintained. Four (4) of the respondents firms required that a group account be operated for their funds. An inference could be made to the effect that the rest of the respondents attracted savings from individual members though they could still be channelled through the group. Apart from a confirmation that savings were mandatory, there were also stringent conditions put in place with eighteen (18) of the respondents allowed withdrawal of savings which were over and above the guarantee level for emergency purposes only. Twelve (12) of the respondents either allowed the withdrawal of savings in excess of prescribed weekly contribution or groups are required to have compulsory savings which are included in every loan repayment.

Since MFIs specialization in provision of financial services to their various clients. The respondents were supposed to indicate how many loan products offered by them.

They did indicate that they provided at least your (4) different loan product the percentage being 24%. 48% indicated that they provided more than five (5) products. This condition provides a recipe for effective product differentiation strategy. In order for MFIs to offer services and products efficiently as well as recover costs incurred. They may levy different types of charges to customers. The respondents indicated that all of them (100%) levied passbook fees and disbursement fees. 92% did charge monitoring fees while membership fee and loan insurance fee were both charged by sixteen (16) respondents, which were prevalent to 64%. The length of time it takes to process a loan does determine the capacity of the customer to meet his financial obligations on a timely basis thus enabling continuous achievement of business goals.

From the table 2 it can be noted that 8% of the respondents managed to process loans within 9 days. The rest spent quite a lengthy period with 20% being on the higher side and taking more than twenty eight (28) days to process a loan. This could be an indication that the MFI market is yet to achieve loan processing efficiency meaning that it creates a differentiation opportunity.

Table 2: Requirements for loan application

Requirements	Frequency
Financial reports	1
Running a legal business within the area of operation	13
Kenyan Citizen with a national ID	9
Be a member of a group that meets regularly	4
The Group must be registered with the GoK	4
Must have operated a business for more than 6 months	4
Be in a position to provide security for the loan	6
Must operate a group account for their funds	4
The group must have elected leadership	4
Group must have a constitution	4
Adequate income to service the loan	2
Employed / in a long-term employment contract	2
Give a postdate cheque to cover the loan	2
Be a legally registered MFI	2
Ability to service the debt	2
Existence for more than 3 years	2
Minimum of 1,000 clients	2
Evidence of operational efficiency	2

In regards to loan repayment periods the respondents indicated that loan repayment could occur on a monthly or weekly basis. Five (5) of the MFIs expected the loans to be repaid on monthly basis. The rest, 80% had both options for their customers, either monthly or weekly. This might have been determined by the type of customers served, thus if Sacco, or group customers were dealt with then, repayment might have been expected within a month while for individual customers the repayment period applicable could have been weekly. This information is available in table 3.

Table 3: Savings account access conditions put in place.

Conditions	Frequency
Savings are accessed only on exit & where all loan are paid	8
The firm is a signatory to group owned bank accounts	10
Groups must have compulsory savings which are included in every loan repayment	12
Groups can only withdraw the interest on savings	7
Savings in excess of prescribed weekly contribution can be withdrawn	12
Savings on top of guarantee level can be withdrawn for emergency	18

4.3 Differentiation strategies used by MFIs in Kenya.

The differentiation strategies are at the disposal of MFIs in Kenya for use are product/service quality, augmented services, personnel and channel differentiation, customer orientation and brand image. The researcher was interested in determining the extent to which MFIs applied differentiation strategies. This was measured in way a five-point likert scale, where respondents were required to indicate to what extent they applied to differentiation strategies. The responses were analysed on a three level structure, thus dimensions of differentiation, which gave rise to broad dimensions leading to the specific differentiation strategy.

The range was 'Very Large Extent'(s) to 'No Extent' (1). The scores of 'No Extent' and 'Small Extent' have been taken to present a variable which is used to a small extent (S.E) by MFIs (equivalent to mean score of 0 to 2.5 on the continuous likert scale;($0 \leq$ S.E <2.5). The scores to 'To Some Extent' have been taken to represent a variable that is used to a moderate extent (M.E.) by MFIs (equivalent to a mean score of 2.5 to 3.5 pm the continuous likert scale: $2.5 \leq$M.E. <3.5). The score of both 'Large Extent' and 'Very Large Extent' have been taken to represent a variable, which is used to a large extent (L.E.) By the MFIs (equivalent to a man score of 3.5 to 5.0 on a continuous likert scale; 3.5≤ L.E. <5.0). A standard deviation of >1 implies a significant difference in the use of the variable among respondents and vice versa.

The features of product/service differentiation applied by MFIs to a large extent were loan sizes, security and conditions for saving and borrowing loans since the mean score was at least 3.75. Particularly worth of mention is the observation that conditions were seen to be given a serious focus by all respondents since the standard deviation is tending towards zero.

Table 4 Features of product/service differentiation

Features	Mean	Standard Deviation
Loan size	4.23	0.75
Security	3.75	0.55
Conditions	4.98	0.31
Uniqueness	1.75	1.08

If advertising strategies were to be applied effectively then, there was need for sufficient budgets a concept which most firms understood for they attached importance to having advertising strategies and budget to a large extent since the score is 4.14. There is no significance difference between the attached importance to having advertising strategies and budget by MFIs since the standard deviation is less than 1. Creating an enabling environment for research and development leads to products innovation and creativity hence a more differentiated offering to clients. Respondents indicated that firm invested in research & development to a large extent since the score is 3.77. There is no significance difference between the firm invested in research & development by MFIs since the standard deviation is less than 1. However monitoring and evaluation procedures were practised to small extent and only by a minority of the firms (Table 5).

Table 5: Innovations of product/service differentiation

Innovations	Mean	Standard Deviation
Research	3.77	0.81
Budget	4.14	0.53
Monitoring and evaluation	1.8	1.42

Table 6 is a comparison of the broader dimensions available when differentiating a product/service. The responses showed features were used to a large extent while firms innovated moderately. In both instances the application was varying highly among firms.

Table 6: Product/Service differentiation

Broad dimension	Mean	Standard Deviation
Features	3.68	1.45
Innovations	3.24	1.72

Augmented service differentiation strategy requires that the service be ordered with ease and training and consultancy services are available for clients receiving the service. Respondents indicated that account opening had been simplified by MFIs to a large extent since the score is 4.36. There is no significance difference between the simplifications of account opening procedures by MFIs since the standard deviation is less than 1. This points towards the ease at which ordering the product has been achieved by MFIs. Further indications were that firms organize training of customers on business skills to a large extent since the score is 3.95. There is no significance difference between the firm organizes training of customers on business skills by MFIs since the standard deviation is less than 1. Consultancy was also practised through a system of conflict resolution strategies for member groups (Table 7).

Table 7: Augmented service differentiation

Broad dimension	Mean	Standard Deviation
Ordering ease	4.36	0.66
Training and consultancy	3.95	0.84

The real drivers for any organisational strategy at hand, differentiation or otherwise are its human resource. In this case competence is required, responsiveness to customers' needs, empathy, courtesy, product knowledge and credibility among others. Firms indicated that they have helpful and competent staff to a large extent since the score is 3.82. There is no significance difference between the firms with helpful and competent staff by MFIs since the standard deviation is less than 1. Services were offered in a friendly and appealing atmosphere to a large extent since the score is 3.50 indicating that the staff are quite empathetic. Their responsiveness was indicated by the presence of a system for channelling customer complaints, which are later analysed. Having occurred to a large extent since the score is 3.59. With a standard deviation of less than 1. Specifically, the responses showed that personnel were fine tuned into these practises through proper training of staff, a staff incentive programme (motivation) and courtesy all which accounted for scores of 4.18, 4.00, and 3.73 respectively on the likert. Also There was no significant difference on application of the strategy between the MFIs since in all cases the standard deviation is less than 1.On the other hand, effective communication was applied to a small extent and even further variably within the sector for the standard deviation was greater than 1.

Table 8: Personnel differentiation

Broad dimension	Mean	Standard Deviation
Competence	3.82	0.85
Responsiveness	3.59	0.91
Empathy	3.50	0.74
Courtesy	3.73	0.46
Communication	1.32	1.20
Training	4.18	0.66
Motivation	4.00	0.93

Customer orientation strategy can be achieved through understanding customers, knowing how the customers perceive the firm and its commitment towards the delivery of value/quality. Firms were seen to understanding customers to a large extent since the score is 3.50. On customers' perception of the firm and delivery of value the mean score were low representing very low or no extent. There was significance differences between the firms pertaining to the two latter dimensions as the standard deviation is greater than 1 (Table 9).

Table 9: Customer orientation

Broad dimension	Mean	Standard Deviation
Understands customers' needs	4.05	0.58
Customers perception of the firm	1.20	1.5
Delivery of value	0.95	1.75

Channel differentiation allows the firm to reach out to specific type of clients. This can be achieved through market penetration, geographical coverage and price premium. To this end responses drawn showed as a means of offering price premiums most firms held transaction costs low to a large extent. There was no significant difference on application of the above strategies between the MFIs since the standard deviation is less than 1. Further indications are that respondents firms were able to provide clients with extensive branch network as well as penetrating the market as a differentiation strategy only to some extent. There was significant difference on application of these strategies between the MFIs since the standard deviation is more than 1 indicating that the strategy was not adequately applied. This can also be confirmed from table 10 since no company expressly indicated branch network as a way of differentiating the product or service

Table 10: Channel differentiation

Broad dimension	Mean	Standard Deviation
Market penetration	3.10	1.25
Geographical coverage	3.41	1.05
Price premium	3.95	0.65

Brand image would be enhanced by firm having a symbol for the purposes of identification. Advertising in the mass media would also be key as well as participating in events fostering corporate social responsibility among other dimensions. The scores on the likert scale were seen as 4.00, 4.14 and 3.95 respectively. However there is a significance difference between the firms having symbols by MFIs since the standard deviation is more than 1 except for mass media use and brand awareness.

Table 11: Brand image

Broad dimension	Mean	Standard Deviation
Symbols	4.00	1.02
Mass media	4.14	0.56
Participation in events	3.50	1.19
Brand associations	3.52	1.20
Brand awareness	3.50	0.74

On the third level of analysis, the specific strategies were compared to observe what the respondents had to say about them. Augmented service was applied to a large extent together with brand imaging and channel differentiation. Customer orientation suffered most its application being only to some extent and variably so. Indications further point to the fact that the applications of these strategies varied among the firms to a very great extent.

Table 12: Specific differentiation strategy

Differentiation strategy	Mean	Standard Deviation
Product/service	3.24	2.25
Augmented service	4.16	1.07
Personnel differentiation	3.45	2.24
Customer orientation	2.13	2.38
Channel differentiation	3.50	1.76
Brand image	3.75	2.18

In line with the observations above, respondents firms differentiated their services through offering a number of products. Either way provision of quality services was just as popular attracting ten (10) respondents. Many firms though, were not keen on fast tracking loans processing and doing market research to understand customers needs as two (2) and one (1) firms confessed to the practises respectively.

Table 13: Ways organizations differentiate their services

Differentiators	Frequency
Providing quality services to clients	10
Quick processing and disbursement of loans	9
Providing low transaction costs	8
Offering a number / flexible products	11
Easy and simplified loan application and processing	2
Doing Market research to understand customer needs	1

4.4 Challenges faced in differentiation

Respondents were to state the challenges, if any, that they faced in practising differentiation in their firms. Below are the responses given.

Table 14: Challenges faced in differentiation

Challenges	Frequency
High cost of research and development of new products	8
Increased costs of employing qualified and competent staff	4
Counter Actions by the competitors	12
Reduction of profit as a result of offering lower rates	8

Table 14 shows that the highest number of respondents, twelve (12) had their firms facing counter actions by competitors as the greatest challenges. Others considered their firms as being threatened by high cost of research and development as well as reduction of profits as a result of offering low rates.

CHAPTER FIVE
DISCUSSION, CONCLUSION AND RECOMMENDATION

5.1 INTRODUCTION

This chapter discusses the findings gathered from the analysis of the data, as well as the conclusions reached. The chapter incorporates the various suggestions and comments given by the respondents in the questionnaires. Findings have been summarized alongside the objectives of the study, conclusions have been drawn from the study and the recommendations for action are also given.

5.2 Discussion

The aim of the study was to determine to what extent MFIs differentiate the products and services offered to clients and the challenges they face in doing so. From the data analysis it was established that majority of the firms had been in the market for at least 10 years. Which is a cumulative percentage of 76%. This is a confirmation that active MFI participation in the financial market begins around the 1980s. The MFIs also enjoyed an active customer base with 54% serving between 10,001 to 30,000 clients. The MFIs client range was seen amongst a three tier structure comprising of individuals, groups and Saccos. Most of them were bent on serving both groups and individuals since only 12% did not serve this category of customers. 32% of the firms shied away from serving Saccos.

Loan threshold levels were seen at too extremes with minimum loans going down to at least Kshs. 10,000 while maximum loans were over Kshs. 1 million and this attracted about 20% of the respondents. The diversity of this ranges shows upon the clients economic conditions and given that MFIs business mainly target the poor then it would be observed that this objective so far is being met. According to Levitt (1980) differentiation is likely to occur more successfully if the range of products available is high. From the data analysis of it was established that the lowest number of loan products offered by MFIs were four with 48% offering more than five products. The researcher established special levies were charged by MFIs on their products\services to offset costs associated with operations and savings accounts maintenance. Passbook fee and loan disbursement fee were universally applied by all MFIs to all clients. 64% of the respondents indicated that they charged both membership fee and loan insurance fund fee, while 92% charged monitoring fee on clients' accounts to maintain vigilance. Since levies were common to all MFIs the only means through which they could be used to differentiable the offering would only be through the rates and not the absence. The research found out that all the MFIs surveyed set stringent withdrawal of savings measures i.e. withdrawal allowed only for emergency purposes, if guarantee, is available or beyond the level of compulsory savings. This is an indication that financial stability and prudent Financial Management practice was applied in running the MFIs. Also no player would consider laxity of standards as a positive step towards differentiation. From the above findings, observation can be made to the effect that MFIs differentiated the product/service greatly in respect to features and innovations to some extent. Reliability and tangibility were totally ignored.

The researcher found out that services were ordered with ease and training and consultancy services are available for clients receiving the service. He also noted that firms organized training of customers on business skills to a large extent. Consultancy was also practised through a system of conflict resolution strategies for member groups to a large extent. Also efficient services were applied as a specific differentiation strategy to a large extent among MFIs.

The real drivers for any organisational strategy at hand, differentiation or otherwise are its human resource.(Pearce and Robinson,1999). In this case competence is required, responsiveness to customers' needs, empathy, courtesy, product knowledge and credibility among others. The researcher found out that Firms had helpful and competent staff to a large extent. Services were offered in a friendly and appealing atmosphere to a large extent indicating that the staff are quite empathetic. Their responsiveness was shown by the presence of a system for channelling customer complaints, which are later analyzed. There was also a standard of measure for service standards, which are applied to all branches to a large extent. Specifically, the responses showed that personnel were fine tuned into these practises through proper training of staff, a staff incentive programme and empowerment to make decisions.

This is in agreement to the findings of Kibiru (1999). However, courtesy, product knowledge, credibility, motivation of staff and more importantly effective communication were left out in the practise of personnel differentiation strategy.

Customer orientation strategy can be achieved through understanding customers, knowing how the customers perceive the firm and its commitment towards the delivery of value/quality. Firms were found to have a system of tracking customer satisfaction & service quality to a large extent. Broad dimensioning of the customer orientation strategy was vividly lacking, as no firm was keen on delivering value or quality to clients or customers.

Channel differentiation allows the firm to reach out to specific type of clients. This can be achieved through market penetration, geographical coverage and price premium (Levitt, 1980). To this end the researcher found out that firms understand different segments they serve and adjust their strategies accordingly to a large extent. Also as a means of offering price premiums most firms held transaction costs low to a large extent. Further findings are that respondents firms were able to provide clients with extensive branch network as a specific differentiation strategy to some extent. There was significant difference on application of the strategy between the MFIs since the standard deviation is more than 1 indicating that the strategy was not adequately applied. The researcher found out that market penetration was not a key strategy when it came to channelling the product/service. This is a great set back considering that MFIs are expected to work more with the rural poor rather than in the comfort of their large CBD offices.

As pertains to brand image the researcher found out that enhancement would be attained by firms having symbols for the purposes of identification as well as participating in events fostering corporate social responsibility. Other dimension to differentiation through brand image such as brand associations, media communications and awareness have also been applied to a large extent but positive variability is limited to mass media and brand awareness.

According to Kotler (2000), differentiation is more effective if firm differentiates along the five dimensions: product, services, personnel, channels, image and price.

Aaker (1987) goes further to include quality option, brand awareness, brand associations, customer orientation, brand loyalty, product line breadth, and technical superiority. The findings of the study point out the facts that MFIs have been keen on only advancing some strategies while ignoring others. Product/service differentiation, personnel differentiation and augmented services have taken priority over customer orientation and brand imaging. Even when these strategies are fostered the multidimensional approach has not been considered effectively.

5.3 Conclusion

From this research, it is evident that MFIs have pursued product or service differentiation to a large extent while limiting themselves to differentiation features and innovations. Reliability and tangibility are yet to be pursued or they are just elusive. Customer orientation was also practised to some extent though leaving out the dimension of value delivery. Staff competence was notably present as well as their responsiveness, empathy and proper training on customer service. However, these do not complement the lack of communication skills

In regards to channel differentiation price premiums are regarded as the most advanced dimension according to this study. MFIs need to be reminded that according to Blois (2000), prices will only determine customers' choice to the extent that they do not view the offerings as differentiated. Sometimes prices may turn out to be a subjective impression rather than an objective fact. Geographical coverage was very inadequate since it was never stated as an express way of differentiating the offering hence making market penetration more elusive. Brand imaging was carried out though symbols mass media and brand awareness were used to a large extent though not among all the respondents..

5.4 Recommendations

MFIs have complained that the strongest challenge faced is counter actions by competitors. This can be avoided if more vigour and enthusiasm can be put towards differentiating the offering more and more. Personnel should be properly motivated with effective communication skills and training in matters pertaining to financial management principles so that they can make reliable decisions. Markets should be penetrated more and more and a wide geographical coverage given the consideration it deserves. Greater budgets allocations are required to support innovations and the products needs to be made reliable and tangible. Brand imaging should be taken to a level where the brand is sold though the mass media to create maximum awareness. All in all firms should strive to take other differentiation strategies to the level which they have taken augmented service.

LIMITATION OF THE STUDY

Though the response rate was remarkably high the study was presumed to be a census carried out on members of AMFI the umbrella body of MFIs in Kenya. Some MFIs may not be members of this organization, which means that they could have been left out in the study.

SUGGESTIONS FOR FURTHER RESEARCH

There is need to carry out research in the area of differentiation strategies and market differentiation to find out what MFIs in the greater East African market regard as differentiation strategies. It would also be important to find out the perception of other financial institutions and their reactions towards practising market differentiation and differentiation strategies.

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APPENDICES

APPENDIX 1 - INTRODUCTORY LETTER

University of Nairobi
Faculty of Commerce
Department of Business Administration
P. O. BOX 30197
NAIROBI

25 July 2005

Dear Respondent,

<u>RE: COLLECTION OF SURVEY DATA</u>

I am a postgraduate student at the University of Nairobi, at the Faculty of Commerce. In order to fulfil the degree requirement, I am undertaking a management research project on the use of growth strategies in the Micro Finance Sector in Kenya. The study is entitled:

"Differentiation Strategies Used By Microfinance Institution in Kenya"

You have been selected to form part of this study. This is to kindly request you to assist me collect the data by filling out the accompanying questionnaire. I will collect it from your premises.

The information data you provide will be used exclusively for academic purposes. My supervisor and I assure you that the information you give will be treated with strict confidence. At no time will you or your organization's name appear in my report.

Your cooperation will be highly appreciated.

Thank you in advance.

Yours faithfully,

Willy K. Bett — M.Ombok

Student — Lecturer\Supervisor

APPENDIX 2: QUESTIONNAIRE

PART A

1. Name of the organisation: ______________________________

2. Please indicate your position in the organisation: __________________

3. For how long has your MFI been operating? Please tick in the box, which represents the age bracket that applies to your firm.
   - Less than 5 years ☐
   - 5-10 years ☐
   - 11-15 years ☐
   - 16-20 years ☐
   - Above 20 years ☐

4. Please tick the bracket that represents the active customer base for your organisation?
   - Less than 1000 ☐
   - 1000-10,000 ☐
   - 10001-20,000 ☐
   - 20,000-30,000 ☐
   - Over 30,000 ☐

5. Please tick the box that represents the total number of active groups that your firm serves?
   - Less than 1,000 ☐
   - 1,000-10,000 ☐
   - 10,001-20,000 ☐
   - 20,000-30,000 ☐
   - Over 30,000 ☐

PART B

6. Please tick the box that represents the type of customers that your firm serves. *(More than one answer if applicable)*
   - Individual customers ☐
   - Groups ☐
   - Saccos ☐
   - Any other (please specify

7. What is the **minimum and maximum** loan size that your MFI lends? (Please tick the brackets that correspond to **the minimum** and **maximum** amounts that you organisation offers.

Amount	Minimum loan size	Maximum loan size
Below Ksh.10, 000	☐	☐
Ksh.10, 001-50,000	☐	☐
Ksh.50, 001-100,000	☐	☐
Ksh.100, 001-500,000	☐	☐
Ksh.500, 001-1, 000,000	☐	☐
Over Ksh.1, 000, 000	☐	☐

8. How many loan products does your firm have? (Tick the box that corresponds to your answer).

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ More than 5

9. What is the average rate of interest (per month) that your organization charges on various loans advanced to individuals and groups?

	Interest Rate
Individuals	
Groups	

10 Below is a list of charges that MFIs levy on products/services offered to their customers. Please tick all the charges that apply to your MFI.

	Other charges	*Tick that applies*
a	Pass Book fee	☐
b	Membership fee	☐
c	Loan Insurance fund	☐
d	Disbursement fee	☐
e	Monitoring fee	☐
f	Any other (please specify)	

11. Please tick the number of days that represent how long the loan takes from the date of receipt of the application form to the date when the client receives a cheque or cash assuming that the application meets the MFI's criteria and requirements.

Days	*Tick that applies*
7 days or below	☐
8-14 days	☐
15-21 days	☐
22-28 days	☐
Above 28 days	☐

12. Please tick the repayment period that describe how often clients repay their loans.

Repayment period	*Tick that applies*
Weekly	☐
Monthly	☐
May pay weekly or Monthly	☐
Any other (Please specify)	☐

13. Below is a list of some savings account access conditions organizations put in place. Please tick the condition (s) that apply to your MFI.

Restrictions

a	Savings are accessed only on exit and where all loan are paid	☐
b	The firm is a signatory to group owned bank accounts	☐
c	Groups must have compulsory savings which are included in every loan repayment	☐
d	Groups can only withdraw the interest on savings	☐
e	Savings in excess of prescribed weekly contribution can be withdrawn	☐
f	Savings on top of guarantee level can be withdrawn for emergency	☐
g	Any other (please specify)	☐

14. Considering how your firm operates, please tick in the box that represents the extent to which you agree or disagree with the following statements on a scale of 1 to 5 where ***1 represents no extent at all and 5 Very large extent.***

		Very large extent	*Large extent*	*Some extent*	*Small extent*	*No extent.1*
		5	4	3	2	1
a	The firm invests in research and development	☐	☐	☐	☐	☐
b	Account opening or registration of a new client is simplified	☐	☐	☐	☐	☐
c	The firm organises training of customers on business skills	☐	☐	☐	☐	☐
d	The company has a system of tracking customer satisfaction and service quality	☐	☐	☐	☐	☐
e	Products are first tested in the market before launch	☐	☐	☐	☐	☐
f	The firm has a marketing department	☐	☐	☐	☐	☐
g	Product development is based on understanding customers needs	☐	☐	☐	☐	☐
h	The firm understands different segments it serves and adjusts its strategies accordingly	☐	☐	☐	☐	☐
i	The firm has service measure standards which are applied to all branches	☐	☐	☐	☐	☐
j	The firm has system of channelling customer complaints which are later analysed	☐	☐	☐	☐	☐
m	The company has helpful and competent staff	☐	☐	☐	☐	☐
n	The firm has a logo	☐	☐	☐	☐	☐
o	All equipment and materials of the firm are branded	☐	☐	☐	☐	☐

		Very large extent	Large extent	Some extent	Small extent	No extent.!
		5	4	3	2	1
p	The firm attaches importance to having advertising strategies and budget	☐	☐	☐	☐	☐
q	The firm participates in events and sponsorships	☐	☐	☐	☐	☐
r	The firm participates in corporate responsibilities	☐	☐	☐	☐	☐
s	The firm has a system of conflict resolution strategies for member groups	☐	☐	☐	☐	☐
t	The service environment is designed to offer a friendly and appealing atmosphere for customers	☐	☐	☐	☐	☐

15. Please tick in the boxes the extent to which the following statements apply to your MFI on a scale of 1 to 5 where ***1 represents No extent at all and 5 very large extent.***

Association

		Very large extent	Large extent	Some extent	Small extent	No extent.
		5	4	3	2	1
a	Product innovation	☐	☐	☐	☐	☐
b	Technical superiority	☐	☐	☐	☐	☐
c	Extensive branch network	☐	☐	☐	☐	☐
d	Low transaction cost	☐	☐	☐	☐	☐
e	Convenience	☐	☐	☐	☐	☐
f	Modernism	☐	☐	☐	☐	☐
g	Flexible product	☐	☐	☐	☐	☐
h	Extensive product line	☐	☐	☐	☐	☐
i	High service quality	☐	☐	☐	☐	☐
j	Efficient services	☐	☐	☐	☐	☐
m	Caring and individualized customer attention for large customers	☐	☐	☐	☐	☐
n	The firm has well trained staff	☐	☐	☐	☐	☐
o	The firm has a staff incentive programme	☐	☐	☐	☐	☐

Association

		Very large extent 5	*Large extent* 4	*Some extent* 3	*Small extent* 2	*No extent.* 1
p	The staff are empowered to make decisions	☐	☐	☐	☐	☐
q	Any other association, *(Please specify)*	☐	☐	☐	☐	☐

16. Please describe briefly the loan application procedure that your MFI has in place.

____
____
____
____
____
____

17. Please list the requirements for one to apply for a loan in your firm.

____
____
____
____
____
____

18. Organisations like yours face stiff competition. In what ways does your organisation differentiate its services from competition?

____
____
____
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____

PART C

19. What challenges does your firm face when differentiating itself from others in the industry?

____
____
____
____
____
____

Thank you for taking time to complete this questionnaire.

APPENDIX 3 - OPERATIONALISING DIFFERENTIATION STRATEGY

1. Product/Service quality differentiation strategy

Broad Dimension	*Dimensions of differentiation*	*Relevant issues*	*Relevant Questions*
Features	▪ Loan sizes ▪ Group sizes ▪ Security ▪ Conditions ▪ Uniqueness	▪ What are the loan sizes ▪ What are the minimum group sizes ▪ Is the loan guaranteed by group or individual based ▪ Are savings mandatory or voluntary ▪ Do savings withdrawal have limitation ▪ Do they seek to offer products not offered by competition	6, 7, 13a, 13c, 13d, 13e, 13f, 15h
Innovations	▪ Research ▪ Budget ▪ Monitoring and evaluation	▪ Does the firm invest in research and development of new products ▪ Does the firm allocate a budget to new product development ▪ Is there any system of tracking and analysing customer complaints as well as lapsed customers/drop outs to identify any existing need gaps	14a, 14d, 14e, 14g, 14h,. 14p
Reliability	▪ Availability ▪ Consistency ▪ Ability to\meet customer needs	▪ Is the firm able to deliver the promised service accurately and efficiently	14d, 14e, 14g
Tangibility	▪ Visibility of benefits	What does the service environment communicate to the customers?	14h, 14t

2. Augmented services

Broad Dimension	*Relevant issues*	*Relevant Questions*
Ordering ease	▪ What is the loan turn around time ▪ What are the procedures and documentations required for one to become a customer ▪ How long does it take for an account to be opened	11, 16, 17
Training/consultancy	▪ Does the firm have a conflict resolution system ▪ Does the firm carry out workshops for its customers on financial management or business skills	14c, 14j, 14s,

3. Personnel Differentiation

Broad Dimension	*Relevant issues*	*Relevant Questions*
Competence	▪ Are field officers able to understand customer needs and provide solutions ▪ Are they competent/do they have the necessary skills to handle responsibilities	14m, 15b, 15i, 15j, 15n,
Responsiveness	▪ Are field staff able to respond to customers complaints ▪ Is there an established system of channelling customer complaints ▪ Are the staff willing to help customers ▪ Do you have service level standards	14m, 14j, 14i
Empathy	▪ Do the employees identify with the customers ▪ Are customers given individualised attention	14m, 14q, 15m, 15i
Courtesy	▪ Do field staff/front office show respect for customers	14m, 15m
Product Knowledge	▪ Do the staff have product information ▪ Do you have product information brochures	15b, 15m
Credibility	▪ Do customers trust the employees to open up to them	14c, 14j, 14m
Communications	▪ Do staff listen to customers ▪ Are customers given feed back ▪ Is there a follow up program for existing and lapsed customers	14a, 14d, 14j
Training	▪ Are the staff trained on customer service ▪ Are the field officers trained on business and financial skills	14m, 15b, 15i, 15j
Motivation	▪ Does the firm track internal customer morale ▪ Are the staff empowered to make decision within their capacity	15p, 15o

4. Customer orientation

Broad Dimension	*Relevant issues*	*Relevant Questions*
Understand customers	▪ Does the firm know what benefits customers value ▪ Does the firm conduct customer satisfaction survey to identify service gaps	14a, 14d, 14e, 14g, 14h
Know how the customer perceives the firm	▪ Does the firm know the current customer image of the firm in customers ▪ Does the firm know the key drivers of its current image	14a, 14n, 14o, 14q, 14r

	▪ Does the firm know the desired image of the firm	
Deliver quality/value	▪ Is the firm committed to deliver value	14d, 14e, 14g, 14h

5. Channel Differentiation

Broad Dimension	***Relevant issues***	***Relevant Questions***
Market penetration	Is the firm located in urban centres or rural	15c
Geographical coverage	▪ Does the firm have an extensive branch network	15c, 15e
Price Premium	▪ What are the transaction costs	9

6. Brand Image

Broad Dimension	***Relevant issues***	***Relevant Questions***
Symbols	▪ Does the firm have symbols that communicate its identity	14n, 14p, 14q, 14r
Media/Communications	▪ Does the management use mass media or below the line communication to create awareness	14j, 14p, 14q, 14r
Events	▪ Does the firm participate in other activities that would give it mileage such as social responsibility activities	14q, 14r
Brand associations	▪ What are the key associations ▪ What drives this perception ▪ Does the firm know what position it would want to have	15a –15q, 14a
Brand awareness	Does the company know the awareness levels	14a, 14f, 14p

APPENDIX 4 – AMFI MEMBER INSTITUTIONS

	AMFI MEMBER INSTITUTIONS
1	K-Rep Bank
2	KWFT
3	Faulu Kenya
4	WEDCO
5	ECLOF
6	Pride Limited
7	Jitegemee Trust
8	Cooperative Bank
9	Post Bank
10	SMEP
11	K-Rep Development Agency
12	Equity Bank
13	Plan Kenya
14	KADET
15	WEEC
16	Oiko Credit
17	Sunlink
18	Micro Kenya Ltd
19	BIMAS
20	Cross Bridge Credit Ltd
21	Bungoma Family Development Programme
22	SISDO
23	Elite Secondary Mortgages & Microfinance
24	Window Development Fund
25	Yehu Enterprise Support Services
26	SNV Kenya
27	Jamii Bora

Source: AMFI-Kenya

– Plan