PRODUCT INNOVATION AND PERFORMANCE OF HACO TIGER BRANDS EAST AFRICA

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF SCIENCE (MSC) IN ENTREPRENUERSHIP & INNOVATION MANAGEMENT SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

2014
DECLARATION

This research project is my original work and it has not been presented in any university or college for examination

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D66/80232/2012

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

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I would like to thank the Almighty God for His grace. For giving me strength when I felt I couldn’t go on.

My sincere gratitude to my supervisor, Dr. Vincent Machuki for his continuous guidance and for ensuring that the contents of this project meet the requirements of academic excellence.

I am also grateful to my MSCEIM colleagues for their support and to the entire University of Nairobi faculty staff during my study at the world class university.
DEDICATION

This work is dedicated to my dearest husband Philip whose support towards this project has been priceless and to Jay our little prince.
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| CAPEX | Capital Expenditure |
| CD    | Compact Disk        |
| COMESA| Common Markets for East and Central Africa |
| EA    | East Africa         |
| FMCG  | Fast Moving Consumer Goods |
| HTB   | Haco Tiger Brands   |
| JSE   | Johannesburg Stock Exchange |
| NPD   | New Product Development |
| OECD  | Organization for Economic Co-operation and Development |
| R&D   | Research and development |
| SA    | South Africa        |
ABSTRACT

Understanding the relationship between innovation and performance is relevant for researchers, policy makers and managers. Innovation is widely regarded as one of the most important sources of sustainable competitive advantage in an increasingly changing environment. Innovation has helped companies across the globe to gain and sustain competitive advantage by generating new revenues from innovated products. This study sought to understand the influence of product innovation on the performance of Haco Tiger brands a fast moving consumer goods (FMCG) company in Kenya’s East Africa market. The study used longitudinal research design and looked at the product innovation activities within Haco Tiger brands for the past 5 years, which included a total of 32 products across the five major brand categories. The research used secondary data collection sheet to capture sales revenues for both the company and innovation products for the past 5 years. This also included the list of all the innovated products detailing the launch time and type of innovation. Data collected was analyzed using trend analysis and presented using tables and chats for data interpretation. Findings revealed that product innovation had a positive influence on the performance of Haco Tiger Brands. Through innovation, Haco Tiger Brands had generated new additional revenues and had accelerated organic growth. It is recommended that HTB diversifies its local manufacturing capacity to maximize on its innovation efforts since the locally manufactured products had higher revenue return compared to those of imported as carry in innovation brands. The study also recommends that policies be made in areas of measuring innovation effectiveness within organization other than use of sales revenues. Findings from the study supported the theory upon which this study was based as it brought out the positive relationship between product innovation and organizational performance. Future research is recommended for adoption of other ways of measuring innovation efforts. Qualitative research through interviewing of staff and senior management is also recommended.
CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The relationship between innovation and firm performance has been a subject of interest to many researchers and policy makers. Many studies suggest a close link between innovation and growth (Nelson and Winter, 1982; Aghion and Howitt, 1992; Klette and Griliches, 2000; Klette and Kortum, 2004). However there are various other scholars who carried out research and concluded that successful innovation do not appear to have significant effect on growth rate of sales (Geroski et al., 1997; Bottazzi et al., 2001; Del Monte and Papagni, 2003; Loof and Heshmatt, 2006). Those with this view argue that for there to be a significant contribution to company revenues, introduction of new products or processes must be timed well because some products have a slower market acceptance despite there being a need or gap for them and that the innovations must be rapidly accepted if innovation is to impact on firms’ profitability.

The traditional ways of staying ahead of completion are no longer sustainable forcing Organizations all over the world to find new and better ways of doing business (Tidd 2001). Evolving technologies, explosive industrial growth in some sectors and global recession are cited as the main reasons for this change (Wheelwright and Clark, 1992). The Schumpeterian approach of simply producing a given set of goods or employing a given set of inputs and processes is not enough. Companies must ensure that products are adopted and accepted by the key consumer as argued by E.M. Rogers in his diffusion of innovation theory. To be successful over a long period of time, firms must develop the ability to innovate and then to profit from that innovation (Nelson, 1991).
Competition within the FMCG sector continues to intensify and the Kenya customer has become more demanding with expectations that keep changing. Product life cycles have also become much shorter as compared to the past. Products are maturing faster than before hence the need to innovate often if firm wishes to continue being profitable. There is need for Haco Tiger Brands to innovate relentlessly by constantly challenging itself. HTB must come up with new products and ways of doing things and constantly improve on those that already exist if these innovation efforts must count towards firm performance.

1.1.1 Product Innovation

An Innovation is any new or significantly improved product that a firm first develops or those that a firm adopts from other firms or organizations which result to commercial value (profit). Product innovation therefore means introducing new products or services (Polder et al, 2010). The product must either be new or significantly improved with regards to its features or components. Product innovation can also refer to change in product design that changes how the product is used or how it looks like (its characteristics) (OECD, 2005).

Companies engage in different types of product innovation. In the current market setting, consumers are more knowledgeable and hence demand certain things from producers of goods and services. This means that the new products must be developed according to customer needs (Olson et al. 1995). Products also have life cycles that are short and hence the need for firms to innovate to ensure that their products do not die (Duranton and Puga, 2001) and remain relevant to their customers. The other way
that firms innovate is by modifying the existing product (renovate) or introduce new products altogether (Adner and Levinthal, 2001)

1.1.2 Organization Performance

Organizational performance refers to the analysis of a company’s performance as compared to its goals and objectives (Dawes, 1999; Harris, 2001). Within corporate organizations, there are three primary outcomes analyzed: financial performance, market performance and shareholder value (Business dictionary). Organization performance is usually reflected in the annual sales and profits generated by the firm. Organizations measure performance in various ways but measuring financial performance is key in determining company profitability. According to Gopalakrishnan (2000) financial measures include increase in profit, return on investment and return of assets. For the sake of this paper, organization performance will be based on financial performance reflected in the company’s total annual net sales.

Organizational performance can also refer to achievement of an enterprise based on a certain criterion (Machuki and Aosa, 2011). These two scholars view organization performance as an indicator of the organization’s effectiveness. They also argue that measuring organizational performance can pose a challenge but common measures such as cash flow per share and shareholder value analysis can be used to measure performance. This paper will however focus on annual net sales revenue as a key indicator of organizational performance by specifically looking at the revenue generated from innovation in relation to total company revenue.
1.1.3 Fast Moving Consumer Goods (FMCG) Companies in Kenya

Fast Moving Consumer Goods companies sell products which are consumed frequently. Such products include perishables products such as food, beverages, hair care, skin & body care, and cleaning products and non perishables such as consumer electronics (Brierley, 2002). These products are mostly branded and packaged and are targeted to the mass market. They are available in retail outlets such as hypermarkets, super markets, grocery store and kiosks. Given their nature, the frequency of purchase range from daily, to weekly, to monthly, to annually and over several years (non perishable goods) (Majumdar, 2004). A typical consumer of FMCG is any personal with a consumption need, who although make up majority of the population, are very price sensitive.

According to Kavitha (2012), Kenya’s FMCG market is one of the major drivers of the country’s economy. Euromonitor (2014) estimates the FMCG market in East Africa at USD 6.6 billion in value. The players in this sector are both local and international companies although the multinational dominate. KPMG listed EABL as the top beer company. Coca Cola leads in the soft drinks category, Unilever in personal care and Reckitt Benckiser in Home care (KPMG, 2014). Strong local players include Bidco who are into foods and detergents, Inter Consumer Goods whose popular hair care brand Nice and Lovely has now extended into skin care, Haco Tiger Brands the number one pen brand manufacturer and also plays in home care and personal care categories. Since FMCGs are generally similar within categories, retailers have to compete on the basis of price making competition fierce which impacts on company margins. As a result companies that are not efficient end
up being pushed out of business. At the end, companies are forced to offer value added products by being innovative so as to survive this stiff competition.

1.1.4 Haco Tiger Brands East Africa

Haco Tiger Brands East Africa was established in the early 1970’s as a single product manufacturer. It is associated with renowned businessman and industrialist Chris Kirubi. As the current chairman and the single individual majority shareholder, Kirubi steered the company from its humble beginnings in 1972, from a single product manufacturer to a diversified and strong player in the FMCG sector in East Africa. Today HTB is one of the region’s leading FMCG manufacturers, supplying a wide range of products to the entire Eastern Africa (Uganda, Tanzania, Rwanda, Burundi & Ethiopia) and COMESA Markets. In 2008, HTB entered into a joint venture partnership with Tiger Brands Limited, one of the largest manufacturers of fast moving consumer goods (FMCG) products in South Africa. Tiger Brands is one of the top 40 listed companies in the Johannesburg Stock Exchange (JSE) with a proud record of solid financial performance over several decades. It has a distribution network that now spans more than 22 African countries.

Innovation has always been part of how HTB conducts business however it wasn’t until the year 2008 that HTB made innovation its key corporate agenda. A new product development (NPD) team was formed, a team that comprised members from manufacturing, R&D, logistics, finance, sales and marketing. This cross functional team was mandated by the organization to oversee all NPD projects to help re-launch existing brands and innovate on new ones. By 2010 HTB’s management incorporated innovations as a key thrust of driving growth of the business. This was to be done in 3 ways; entry into new categories to generate new additional revenues. This was to be
done by innovating on new products or carrying in products from Tiger Brands SA and introducing them into the Kenyan market. The second way was through renovation of the core brands that existed in the Kenyan market but needed significant pack upgrade and formulation change to drive and sustain consumer appeal as a result of changing trends and tastes. Third and lastly was through green field projects that required capital expenditure (CAPEX) to enable local manufacturing. Today HTB continues to innovate and grow its product portfolio beyond what it has always been known for, the BIC pen. Haco has significant market shares across the hair care, skin care, fabric care, toilet care, baby nutrition and foods.

1.2 Research Problem

Wheelwright and Clark (1992) cite innovation as the key to the success of any business. They argue that in the ever changing business environment and with the globalization of markets any company needs to innovate to continue in business. They argue that the essence of innovation for any company is to gain competitive advantage on the long term which normally results in sustainable company profits. Other scholars (Del Monte and Papagni, 2003) differ with this view arguing that companies can innovate and still not grow their revenues. They highlight factors such as proper timing of product launches or new introductions and acceptance of the new product by the target consumer as the drivers to revenue growth.

Haco Tiger Brands has been actively innovating in the past five years. Some products have been successfully developed and launched; others have been launched and failed while others are still in the innovation pipeline awaiting full development before launch. Despite HTB’s ability to launch and existence of an active innovation pipeline, there is need for Haco Tiger Brands to evaluate if these innovation efforts
are really yielding profits and leading to business growth. Based on the previous studies, companies can innovate and either be profitable or have no impact on revenues.

A number of research studies in Kenya have focused on innovation strategies and how these strategies help different Kenyan companies perform. Most studies have focused on banking and telecommunication sector. Letangule and Letting (2012) for instance studied the effect of innovation strategies on performance of firms in telecommunication sector in Kenya. The study looked at different types of innovation and how they impact the performance of firms specifically in the telecommunication industries. Others such as Mwenje (2012) looked at product innovation as a competitive strategy in Barclays and Kemoli (2012) studied strategic innovations & performance of commercial banks listed in the NSE. These two studies revealed that a strong positive relationship existed between innovation strategies and organizational performance. No study has been done to analyse how product innovation impacts company performance in the FMCG sector where innovation is constant requirement.

Based on the above, and with this view it is clear that companies engage in innovative activities with the main purpose of improving their performance by growing revenues. Different companies have adopted innovation in different ways such us implementing innovation strategies to help them compete better. Many of these organizations lack proper measures that can be used to conclude the assumption that innovation or innovative activities influence company performance. Haco Tiger Brands in particular has launched into the Kenyan market new products with some succeeding while others failing. This study will seek to understand whether HTB’s innovation efforts
actually yielded additional revenues for the company as perceived or if these efforts have just been part of the usual business activities. What is the influence of product innovation on performance of Haco Tiger Brands East Africa?

1.3 Research Objective

The objective of the study was to determine the influence of product innovation on performance of Haco Tiger Brands.

1.4 Value of the study

The study adds value to theory by forming a basis upon which further research can be done on issues of innovation management and how innovation activities impact on organization performance. It will therefore be of use to both students and lecturers studying and working in this area as a source of information and reference point on which to base or further their studies.

The study has made recommendations for policy makers in the field of innovation management. The finding of the research will serve as a guide for policy makers in both private and public service to formulate policies that will lead to better company performance as a result of innovation. It will also help these policy makers explore other ways of measuring the effectiveness of innovation activities carried out by an organization and how these activities impact on firm performance.

Findings from the study will help innovation managers both locally and internationally in understanding innovation management better. It will help them understand how they can use these findings to positively impact their various businesses. It will in particular help Haco Tiger Brands in managing their innovation
better. Ensuring that innovations are commercialized faster and have a return on investment will add value to the Haco Tiger Brands. The insights will also be helpful to innovation professionals who engage in innovative activities in their different areas of interest.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents the empirical and conceptual literature along the key theme of the study. It intents to bring to light the state of knowledge as well as the existing gaps in the area of study. First it presents the theories underpinning the study, followed by product innovation practices and how that influences company performance. The chapter ends by reviewing empirical literature of the two concepts that form the conceptual framework of this study.

2.2 Theories Underpinning The Study

This study like any other will be based on theories and models as a guide to understanding innovation. To date scholars have not found dominant innovation theories that explain the ability of a company or person to innovate. However, there exist theories that explain the different concepts of innovation such as product, process, and disruption among others. Most researchers have based their research on two main theories; Entrepreneurship theory (Schumpeter, 1934) and diffusion of innovation theories (Rogers, 1995). Both theories form a strong base of research in this area of innovation. This study will however use the diffusion of innovation theory because of the relation of innovation to performance. How innovations are received and adopted affect the companies earning from such innovation activities since acceptance or rejection of new products is determined by adoption by targeted consumers.

The diffusion of innovation theory (Rogers, 1962) finds its origin in communication and explains how, over time, an idea or product gains momentum and diffuses into a
social system. The end result of this diffusion is that people, as part of a social system, adopt a new idea, behavior, or product (Sherry and Gibson, 2002). By people perceiving an idea, behavior or product as new innovation they adopt to it. The theory further explains that this adoption is not simultaneous (Rogers, 2003), some people adopt more than others within the same social system. According to this theory, how people adopt these innovation varies. The adopter categories include the innovators who are usually the first to develop ideas and are willing to take risks, there are the early adoptors who are mainly opinion leaders. This lot is aware of the need to change are comfortable to adopt to new idea – they don’t need convincing. Then there are the early majority who need evidence of the innovation work and are mostly the average person. The late majority are very skeptical and will only adopt to new innovation after it has been tried by the majority. The last category is the laggards who are very traditional and conservative. They don’t like to change and are the hardest to convince.

It is important that researchers understand the characteristics of the target population to fully comprehend how that impacts on adoption of any innovation (Sherry and Gibson, 2002). In measuring the impact of innovation on performance of different companies, various factors must be evaluated within a defined set up (Rogers, 2003). This theory will be a good basis of the research in examining these different variables. Like many theories, this is not without its limitations. Key to note is that this theory works better with adoption of behaviors rather than cessation or prevention of behaviors and doesn't take into account an individual's resources or social support to adopt the new behavior (or innovation).
2.3 Product Innovation Process

Innovation is viewed differently by different people and organizations but most scholars generally agree to three schools of thought. The first is the market-based view of innovation which explains that the market conditions provide the context which facilitate or constrain the extent of firm innovation activity (Slater and Narver, 1994; Porter, 1980, 1985). The other school of thought is the resource-based view in this school of thought, the firm focuses on the firm’s own resources to provide a much more stable context in which to develop its innovation activity, and to shape its markets in accordance to its own view (Tidd et al., 2001; Shavinina, 2003; Patel & Pavitt, 2000) and the last school of thought views innovation as a result of luck and good fortune thus serendipity. In this view, firms stumble on certain innovation while busy innovating on others attributing their success to luck or good fortune.

Various models have been adopted to demonstrate the process of innovation. Earlier traditional models of technology push and market pull were popular in the 1960s and 1970s (Trott, 2008). Over time and given the changing technologies, linear representations of innovation failed to capture all the effects in the innovation process such as the external environment. Organizations which are serious about commercialization of their innovation need to therefore adopt better models. This is because introduction of new ideas is not a guarantee of profitability. Del Monte and Papagni (2003); Loof and Heshmatt (2006) argue that other factors within the environment such as timing and slower market acceptance affect how people adopt to these new introductions. It is important to note that different groups of people within the same environment adapt to new things at different times (Rogers, 1962) and this means that market share growth increases with more people adopting the new product.
or service. This also means that, if people do not adopt to new introductions, then the innovation may fail.

2.4 Measures of Innovation

Most organizations use financial performance as a way of measuring the effect of innovative activities (Loof, et al., 2002; Bessler, et al., 2008). Apart from this measure, there are other innovation metrics of measuring the influence of innovative activities on an organization’s performance. One way of measuring innovation effectiveness is by looking at the number of products introductions into the market within a defined period of time usually annually. Hitt at al. (1996) cite new product announcements as an indicator of innovativeness of a company. There is also a positive relationship between new product announcements and patents (Devinney 1993). Organizations must however be cautious when using this measure as most press releases on new products originate from marketing departments and little or no screening appears to be undertaken. Success or failure of launched products can help an organization measure how effective their innovation is. Not all innovation succeeds. The process of idea screening and feasibility testing filters ideas leaving those viewed as viable for development and launch. Some of these succeed while others fail. Failure and success of a product is part of the innovation process and companies must learn from both if innovation is to matter.

Another way of measuring innovation is by looking at the total number of projects in the innovation pipeline awaiting commercialization. An active pipeline is an indicator of an organization’s commitment to looking at ways of adding value to the existing products or providing new offerings into the market (Mankin, 2007). The research and development team can work on product improvements or new products. This can
help in faster introduction into market once a need is identified. The final way an organization can gauge its innovativeness is by their ability to commercialize faster commonly referred to as speed to market. Tidd, Pavitt and Bessant (2001) cite speed of innovation as the differentiating factor between innovative companies and those that are not. The first mover advantage plays a critical role in setting an organization apart from its competitors. Organizations that are fast to launch are viewed as the originators whereas those that follow are viewed as imitators. With this in mind, it is clear that measuring innovation effectiveness on a global perspective can be quiet elusive. This however does not mean that it is impossible.

2.5 Product Innovation and Organization Performance

As earlier discussed many scholars have attempted to link innovation to firm performance. The relationship between innovation and firm performance has been a subject of interest to many researchers and policy makers. Most studies have reported a positive relationship between innovation and firm performance (Loof, et al., 2002; Bessler, et al., 2008). Performance was measured using sales and export revenues, return of assets and productivity. These were measured in relation to sell of new products by their employees, employee growth and operating profit. Other researches have found a positive relationship between innovation output and sales growth but no evidence that relates innovation output and employee growth (Klomp and Leeuwen 2001).

Other researchers have looked at the innovation process and channels as a way of realizing better performance (Crepon, et al., 1998; Hall, et al., 1998; Loof, et al., 2002; Kemp, et al., 2003; Bessler, et al., 2008). The different stages in the innovation process are able to help an organization better commercial their products enabling
them to realize profits from those products. The sequence flow of process from the decision to innovate to innovation output is cited as what links innovation activities to positive firm performance (Crepon et al. 1998)

OECD reports point out decisive and rapid innovation by organizations as a key contributor to higher productivity and incomes. Such companies also enjoyed better qualified workers, they paid higher salaries and provided better future plans for their employees (OECD Oslo Manual, 2005). This research differs from others that look at market share and profitability as measures of innovativeness to productivity and efficiency.

McAdam and Keogh (2004) in their research found out that firms which are more inclined to innovation enjoy a competitive advantage despite the competitive environments they operate in but other scholars looked at proper timing and product acceptance as a proper way to measure the contribution of innovation to performance (Geroski et al., 1997; Bottazzi et al., 2001; Del Monte and Papagni, 2003; Loof and Heshmatt, 2006)

A lot of research has been done in the area of innovation and firm performance. Positive company performance (Derfus et al., 2008; Ferrier et al., 1999, and Young et al., 1996) has been linked to a firm innovativeness (Roberts and Amit, 2003). Most of these studies have however concentrated in developed or mature markets. This is mostly because in mature markets, individual companies must find ways to manage their business given the competitive business environment. A lot of maturing or developing markets lack satisfactory research on this topic.
The key enablers of innovation from the reviewed literature include proper the use of the innovation process, decisive and rapid innovations, measuring innovation efforts, having an innovative culture and ensuring proper timing during introduction of new products into any market. Sales revenue growth is cited as the major result of these innovation activities. This research will look at these influencers in relation to innovation and how these innovation activities influence firm performance.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents an overview of the research methodology of the study. It describes the research design, instrument and the procedure that was used to collect and analyze the data. It will therefore start with a detailed description of the study design followed by how data was collected and finalize with a description of how data were analyzed.

3.2 Research Design

This research used longitudinal study design. Longitudinal study design is specifically used to monitor changes over a period of time in the relevant research environment (Cooper and Schindler, 2008). This study chose this research design because it allowed an in-depth analysis of innovation products and performance elements at Haco Tiger Brands within a specified period of time and a defined environment.

The study analyzed the impact of innovation on company performance by empirically examining innovation activities at Haco Tiger Brands using longitudinal data from of the 32 innovated products that have been innovated or renovated over a recent period of five years. Because of its nature, the design allowed for year on year understanding and made it easier for the researcher to observe change over the specified period of time. Longitudinal studies require enormous amounts of time and are often quite expensive to carry out however this was not a disadvantage to this research given that the study period was in the recent past. Accessing data did not pose a challenge because the data required was documented in Haco Tiger Brands’ financial records and sales reports. There was also no cost incurred in accessing this data.
3.3 Data Collection

Given the nature of study and choice of research design, this study collected data from secondary sources. This included the annual financial and sales reports from Haco Tiger Brands. Data were collected using a secondary data capture form (Appendix I). The form detailed all the product innovations at Haco Tiger Brands from October 2009 to September 2014 financial years. The form also indicated when these products were introduced into the market, the nature of the innovation type and the categories within which these products fell. It further captured revenues generated from these innovations products in relation to total company revenue for the same period of five years.

Secondary data collection was the best way of collecting data for this study mainly because it was the most feasible method for this research design. Longitudinal studies cover long periods of time and it’s therefore critical that a record of the required data be available. Data collected was from historical data that was available in financial and sales reports of Haco Tiger Brands. The needed information already existed and was accessed quickly hence this method saved the study time in collecting the required data.

3.4 Data Analysis

This study used trend analysis to identify and spot patterns on trends with regards to innovation and performance at Haco Tiger Brands. Collected data were first checked to ensure that it was complete and consistent. After this data were analysed using Gretl computer software to understand the trends of innovation revenues and company sales over a period of five year. Time series charts were used to show
growth trend of revenue generated from innovation over the past five years. Analysis of revenue impact on total company sales was also analysed over the same period to establish whether a relationship existed between innovation sales revenues and total company net sales.

Trend analysis was used to show past trends which is useful for predicting the future outlook of an organization’s performance, identifying unexpected variances that may indicate strategic or operational changes or entity weaknesses worthy of additional exploration and analysis. To ensure full proof analysis, further research can be carried out to validate finding of this research to take care of factors that may not have been picked up during the research.
CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the results and discussion of the study which sought to determine the influence of product innovation on performance of Haco Tiger Brands East Africa. To achieve this, data of product innovation and company revenues for the past five years were captured for analysis and interpretation first by looking at product innovation performance, secondly by analyzing the relationship of both product innovation and company performance and ending by discussing the research findings.

4.2 Product Innovation at Haco Tiger Brands East Africa

The study started by examining the broad categories within which the several brands fall. It was established that Haco Tiger brands had a broad brand portfolio in stationery, shavers, hair care, skin care, home care and foods. A total of 32 products made up the list of all the innovation carried out by the company for the past five years (Appendix II).

Table 4.1: Revenue Contributions Per Innovation Type

<table>
<thead>
<tr>
<th>Innovation Type</th>
<th>Revenue (5 yrs)</th>
<th>% contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Manufactured</td>
<td>1,393,703,181</td>
<td>77%</td>
</tr>
<tr>
<td>Carry In (Imported)</td>
<td>407,884,552</td>
<td>23%</td>
</tr>
<tr>
<td>Total</td>
<td>1,801,587,733</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Haco Tiger Brands Annual Sales reports
Figure 4.1: Innovation Sales Trends

Source: Haco Tiger Brands Annual Sales reports

The locally manufactured products accounted for 44% whereas the remaining 56% came from carry in products from within the Tiger Group of Companies made up of 6 countries across Africa or through contract manufacturers. Revenue contribution from locally manufactured products were significantly higher at 77% than that from the carry ins at 23% (Table 4.1) an indication that perhaps locally manufactured goods give better margins as compared to those being imported from other Tiger Group of Companies. Out of the 32 products innovated, the carry in brands were the most (56%) yet the revenue contribution was lower than the locally manufactured products.

The study also looked at the revenue growth year on year from 2010 to 2014. From the analysed data (Figure 4.1), innovation revenues for Haco Tiger Brands doubled for the period between 2010 and 2014. From just under 200 million in 2010, HTB now enjoys revenues of over 0.5 billion from innovation products. There is a clear upward trend and although the growth seemed to have stagnated in financial year
2011/2012 there was a leap in 2013 where innovations sales revenues grew by a significant 4%, the highest annual growth since 2010.

4.3 Product Innovation and Company Performance

The study also sought to find out the relevance of product innovation to the total company sales. Data were analyzed using Gretl computer software and Microsoft excel and was presented using charts and tables.

Table 4.2: Contribution of Product Innovation to Company Sales

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Company NSR (Kshs)</th>
<th>Innovation Brands NSR (Kshs)</th>
<th>% Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1,981,232,337.30</td>
<td>200,752,665.30</td>
<td>10%</td>
</tr>
<tr>
<td>2011</td>
<td>2,656,614,988.40</td>
<td>282,095,149.00</td>
<td>11%</td>
</tr>
<tr>
<td>2012</td>
<td>2,863,940,189.70</td>
<td>296,973,949.30</td>
<td>10%</td>
</tr>
<tr>
<td>2013</td>
<td>2,909,522,992.80</td>
<td>419,505,791.00</td>
<td>14%</td>
</tr>
<tr>
<td>2014</td>
<td>3,381,152,252.00</td>
<td>554,776,176.20</td>
<td>16%</td>
</tr>
</tbody>
</table>

Source: Haco Tiger Brands Annual Sales reports
Figure 4.2: Five Years Trend Contribution of Innovations Verses Company Net Sales Revenue

Source: Haco Tiger Brands Annual Sales reports

Table 4.3: Revenue Growth 2010 - 2014

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Company NSR (Kshs Mio)</th>
<th>Innovation Brands NSR (Kshs Mio)</th>
<th>Total company NSV less Innovation NSV</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1,982</td>
<td>201</td>
<td>1,781</td>
</tr>
<tr>
<td>2011</td>
<td>2,657</td>
<td>283</td>
<td>2,374</td>
</tr>
<tr>
<td>2012</td>
<td>2,864</td>
<td>297</td>
<td>2,567</td>
</tr>
<tr>
<td>2013</td>
<td>2,910</td>
<td>420</td>
<td>2,490</td>
</tr>
<tr>
<td>2014</td>
<td>3,382</td>
<td>555</td>
<td>2,827</td>
</tr>
<tr>
<td>% growth 2010-2014</td>
<td>41%</td>
<td>64%</td>
<td>37%</td>
</tr>
</tbody>
</table>
Table 4.2 presents a summary of the revenues generated for the past 5 years. Contribution from innovation products grew from 10% in 2010 to 16% in 2014. Figure 4.2 represents the growing contribution of revenue streams from innovation products in relation to the total company sales. Table 4.3 gives an in depth understanding of the relevance of innovation to total company sales.

From the data presented, the 6% growth in sales revenue from innovation indicates that product innovation has had an influence on the firm performance. The total revenue growth without innovation was 37% compared to 64% when product innovation revenues were included. As compared to 2010, the contribution was lower but moving towards 2014, there was significant revenues coming through from innovation, faster than the company sales growth.

A 6% revenue growth between 2010 and 2014 indicates that innovation activities at Haco Tiger Brands had a positive influence on company performance. The difference between total company sales less innovation revenues is a significant 27% and indication that innovation not only contributed to total company sales revenues, but also accelerated the revenue growth. It seems clear that the company has grown its revenues in general from 1.9 billion in 2010 to 3.3 billion in 2014 (Table 4.2), however innovation has accelerated this growth and helped the company grow its total sales revenue faster (Table 4.3).
4.4 Discussion

Haco Tiger Brands has engaged in innovative activities for the past five years by entering new product categories and also renovating some of its older brands. In just five years, Haco Tiger Brands introduced over 30 new products into the Kenyan market. These product introductions that cut across all categories saw Haco Tiger Brands grow its total sales revenues and double its annual sales revenues by 2014. The study findings found that product innovation at Haco Tiger Brands had an influence on company performance.

This study was anchored on the diffusion of innovation theory which explains how products gain momentum and diffuse into a social system. Product innovation contribution at Haco Tiger Brands seemed to have started slowly but steadily grew from a base of Ksh. 200 million in 2010 to over Ksh. 0.5 billion in 2014. The theory may explain the possible significant leap in innovation sales in 2013. In early 2010 as products were introduced, consumers may not have adopted to these new products immediately an explanation given in the theory. The theorist explains how different people adopt to new things at different times. Conservative consumers for instance may have wanted to see proof that the products work and may have joined the bandwagon much later which may explain the revenue growth in years 2013/2014. This research finding therefore support the diffusion of innovation theory upon which the study was based.

In their study of the effect of innovation strategies on performance of firms in the telecommunication industries, Letangule and Letting (2012) focused on the impact of innovation types on company performance, specifically the telecommunication sector. Mwenje (2012) and Kemoli (2012) also looked at the impact of innovation strategies
in the financial sector. Whereas these studies looked at the impact of innovation types and innovation strategies on company performance, none focused specifically on the impact of product innovation on performance in the FMCG sector in Kenya.

Del Monte and Papagni (2003); Loof and Heshmatt (2006) argue that other factors within the environment such as timing and slower market acceptance affect how people adopt to these new introductions. It is important to note that different groups of people within the same environment adapt to new things at different times. This could possibly explain the sudden leap in 2012 and the gradual upward growth trend of Haco Tiger Brands sales as seen in the earlier analysis. Rogers (1962) in his research explained that market share growth increases with more people adopting the new product or service. This also means that, if people do not adopt to new introductions, then the innovation may fail or the revenues from these innovation may be of no significance to the organization. From the data analyzed, products introduced into the market by Haco Tiger Brands appear to have been accepted by the consumers but at a slower rate with some products dropping off due to poor revenues generated. The research findings in this study are therefore in agreement with the empirical study earlier reviewed.
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary of the research findings, conclusions and recommendations for policy and practice as observed by the researcher. It also points out limitations of the study and provides suggestions for further research.

5.2 Summary

The objective of the study was to determine the influence of product innovation on performance at Haco Tiger Brands. It was established that Haco Tiger Brands had engaged in active product innovation for the past five years and had introduced over 30 new products into the Kenyan markets. Haco Tiger Brands did this through local manufacturing of some products and also by carrying in new products from other Tiger Group of Companies. The carry in products that is the imported products were more than those that were locally manufactured, but the revenue generated from the locally manufactured products was significantly higher meaning that they were most profitable. Since 2010, product innovation sales revenues had an upward growth trend an indication that perhaps these new product introductions had gained acceptance in the market.

The study established that product innovation was relevant to the company as it contributed significantly to the sales growth of the company. This was by generating new additional revenue streams of over half a billion from innovation by 2014 up from under two hundred million in 2010. Product innovation also helped to accelerate total company sales revenue. The results showed that the total company sales
revenues less innovation grew at a slower rate of 37% as compared to growth when product innovation sales revenues were included in the total company sales revenues accounting for a faster sales growth rate of 64%. Product innovation had a positive influence on the performance of Haco Tiger Brands.

5.3 Conclusion

The findings from the study revealed that product innovation had a positive influence on company performance. It was concluded that Haco Tiger Brands had engaged in product innovation by launching 32 new products into the Kenyan markets. These products cut across several brand categories and were either locally manufactured or imported from Tiger Group of Companies across six African countries or through contract manufacturers. Loof, et al., (2002); and Bessler, et al., (2008) reported positive relationship between innovation and firm performance. The study established that HTB’s innovation activities had a positive influence on company performance over the past five years. It’s however important to note that whereas product innovation brought in new revenues to the business, the growth was slow but steady. Financial years 2011/2012 saw stagnation in innovation revenue growth with a sudden leap in 2013.

The study also established that product innovation had helped Haco Tiger Brands accelerate its growth. The total company sales revenue growth by 2014 stood at 2.8 billion from normal revenues of the company’s brands, however, a significant 3.4 billion in total sales revenues was accounted for when product innovation sales were included in the total company sales. Klomp and Leeuwen (2001) found a positive relationship between innovation output and sales growth. Their research established that companies experienced accelerated sales growth as a result of more output from
innovation. Haco Tiger Brands increased its product innovation outputs from 2010 to 2014 growing the list of new product introduction to 32 which accounted for over half a billion new revenue sales for the company. The product innovations grew faster than the company revenues leading to accelerated company growth.

Findings from the study support the theory of diffusion of innovation which explains that adoption of new things or products is not simultaneous (Rogers, 2003). According to this theory different people within the same environment adopt to new introductions at different times and at different rates. The growth trend in innovation sales revenues over the past five years indicate that the earlier introduced products continue to grow as they mature within the market. Some consumers seem to adopt to these new introductions faster than others hence this trend.

5.4 Recommendations for Policy and Practice

The study recommends that Haco Tiger Brands diversifies its local manufacturing capacity. From the research findings, the locally manufactured products delivered more revenue to the company and value to consumers as compared to the imported ones from other Tiger group of companies or contract manufacturers. Haco Tiger Brands should consider investing in CAPEX to enable local manufacturing of more products as opposed to importing finished products.

The study also recommends that Haco Tiger Brands investigates the performance of carry in products. From the research finding, most of these products generated the least revenue, yet they were the majority of the 32 innovated products over the past 5 years. This will help the business invest in innovation activities that add more value to the company and those that are relevant to the Kenyan consumer.
The study further recommends that Haco Tiger Brands adopts other ways of measuring innovation effectiveness within the company. From the study, Haco Tiger Brands focused on annual total sales revenues and innovation sales revenues as a key measure of how successful these activities are to the company. The company can use other measures such as speed to market and success or failure of products launched into the market to measure the effectiveness of product innovation.

5.5 Limitations of The Study

The study was limited to a specific measure of performance. Annual total sales revenue was used to measure performance of both product innovation and company sales. The study did not examine other measures such as failure or success of launched products, active innovation pipeline, research and development investment and speed to market to measure the effectiveness of product innovation at Haco Tiger Brands.

The study was limited to the use of longitudinal approach in assessing product innovation influence on company performance. The trend analysis covered a period of five years and whereas this yielded results in understanding how product innovation influences company performance, other factors outside the defined study period and data availed may influence the research results and findings.

The study was limited to quantitative research from Haco Tiger Brands annual financial reports and sales reports. Qualitative research such us interviewing of company employees and Haco Tiger Brands management team regarding product innovation and its impact on the organization’s performance was not done.
5.6 Suggestions for Further Research

The study suggests that future researchers conduct a similar study but incorporate other measures of performance. Other measures such as failure or success of launched products, active innovation pipeline, research and development investment and speed to market will enable Haco Tiger Brands to effectively measure the effect of product innovation on company performance because the study will be wider and more conclusive.

The study recommends that further research be done covering the same period of 5 year beyond 2014. This will help in understanding the research finding in a wider context of ten years. Other factors that could have been missed in this research but could have influenced the research findings will be brought out.

The study suggests that future research incorporates qualitative research by interviewing the staff and senior management at Haco Tiger Brands to incorporate their views into the research findings. This will help generate additional findings that may help in interpreting the research better.
REFERENCES


APPENDICES

Appendix I: Secondary data capture form

<table>
<thead>
<tr>
<th>Company Name:</th>
<th>Date:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

List of brand categories

1. ________________________________
2. ________________________________
3. ________________________________
4. ________________________________

<table>
<thead>
<tr>
<th>Brand innovated</th>
<th>Year Launched</th>
<th>Innovation Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total company revenues for the past 5 years

2010 ________________________________
2011 ________________________________
2012 ________________________________
2013 ________________________________
2014 ________________________________
### Appendix II: Innovation products for the past 5 years

<table>
<thead>
<tr>
<th>Brand Innovated or Renovated</th>
<th>Year Launched</th>
<th>Innovation Revenues</th>
<th>Innovation Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>BIC Crystal Fun Writing</td>
<td>2010</td>
<td>71,467,402</td>
<td>Local Manufacture</td>
</tr>
<tr>
<td>BIC - Fine Fashion</td>
<td>2012</td>
<td>3,326,400</td>
<td>Local Manufacture</td>
</tr>
<tr>
<td>BIC 1 Lady Shavers</td>
<td>2011</td>
<td>6,646,945</td>
<td>Local Manufacture</td>
</tr>
<tr>
<td>Glider Pens &amp; Rulers</td>
<td>2013</td>
<td>10,515,235</td>
<td>Local Manufacture</td>
</tr>
<tr>
<td>Mentor Pencils</td>
<td>2010</td>
<td>15,225,031</td>
<td>Carry In</td>
</tr>
<tr>
<td>Tops Pens</td>
<td>2010</td>
<td>147,775</td>
<td>Local Manufacture</td>
</tr>
<tr>
<td>Amara (Lotions, PJs and Glycerin)</td>
<td>2014</td>
<td>41,168,854</td>
<td>Local Manufacture</td>
</tr>
<tr>
<td>Black Silk Hair Care Range</td>
<td>2013</td>
<td>29,502,904</td>
<td>Local Manufacture</td>
</tr>
<tr>
<td>Elizabeth Anne’s</td>
<td>2010</td>
<td>510,615</td>
<td>Carry In</td>
</tr>
<tr>
<td>Ingram’s Skin Care</td>
<td>2012</td>
<td>74,063,075</td>
<td>Local Manufacture</td>
</tr>
<tr>
<td>Lemon Lite facial range</td>
<td>2011</td>
<td>2,601,597</td>
<td>Carry In</td>
</tr>
<tr>
<td>Miadi Hair Care</td>
<td>2011</td>
<td>403,167,293</td>
<td>Local Manufacture</td>
</tr>
<tr>
<td>Ace Bleach</td>
<td>2012</td>
<td>149,897,752</td>
<td>Local Manufacture</td>
</tr>
<tr>
<td>Ace Toilet Cleaner</td>
<td>2013</td>
<td>6,704,873</td>
<td>Local Manufacture</td>
</tr>
<tr>
<td>Bloo Toilet Cleaner</td>
<td>2012</td>
<td>214,608,342</td>
<td>Local Manufacture</td>
</tr>
</tbody>
</table>

**Renovated**
<table>
<thead>
<tr>
<th>Product</th>
<th>Year</th>
<th>Quantity</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fast Kill Pest Care</td>
<td>2012</td>
<td>9,594,343</td>
<td>Carry In</td>
</tr>
<tr>
<td>So Safe Water Purifier</td>
<td>2012</td>
<td>244,343</td>
<td>Local Manufacture</td>
</tr>
<tr>
<td>SoSoft Fabric Conditioner</td>
<td>2014</td>
<td>382,241,988</td>
<td>Local Manufacture</td>
</tr>
<tr>
<td>All Gold Sauces</td>
<td>2010</td>
<td>43,152,939</td>
<td>Carry In</td>
</tr>
<tr>
<td>Allsorts Sweets</td>
<td>2010</td>
<td>17,389,457</td>
<td>Carry In</td>
</tr>
<tr>
<td>Beacons Chocolate</td>
<td>2010</td>
<td>136,308,568</td>
<td>Carry In</td>
</tr>
<tr>
<td>Cross &amp; Blackwell</td>
<td>2010</td>
<td>22,891,647</td>
<td>Carry In</td>
</tr>
<tr>
<td>Energade Sports Drink</td>
<td>2011</td>
<td>1,849,798</td>
<td>Carry In</td>
</tr>
<tr>
<td>Jungle Oats</td>
<td>2011</td>
<td>8,714,240</td>
<td>Carry In</td>
</tr>
<tr>
<td>Koo canned foods</td>
<td>2011</td>
<td>3,171,555</td>
<td>Carry In</td>
</tr>
<tr>
<td>Marshmallows</td>
<td>2011</td>
<td>39,045,708</td>
<td>Carry In</td>
</tr>
<tr>
<td>Macaroni</td>
<td>2010</td>
<td>937,130</td>
<td>Carry In</td>
</tr>
<tr>
<td>Morvite Instant porridge</td>
<td>2011</td>
<td>5,777,453</td>
<td>Carry In</td>
</tr>
<tr>
<td>Purity Baby Foods</td>
<td>2010</td>
<td>68,766,333</td>
<td>Carry In</td>
</tr>
<tr>
<td>Spaghetti</td>
<td>2012</td>
<td>4,397,068</td>
<td>Carry In</td>
</tr>
<tr>
<td>Sparkles</td>
<td>2010</td>
<td>16,353,221</td>
<td>Carry In</td>
</tr>
<tr>
<td>Tastic Rice</td>
<td>2010</td>
<td>11,197,850</td>
<td>Carry In</td>
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<tr>
<td></td>
<td></td>
<td><strong>1,801,587,733</strong></td>
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