THE INFLUENCE OF DIFFERENTIATION STRATEGY ON PERFORMANCE OF WATER BOTTLING COMPANIES IN MOMBASA COUNTY, KENYA

BY

TUVA JULIET NURU

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DECLARATION

This research project is my original work and has not been submitted to any university forany award.

Signature …………………………………… Date ……………………………..

TUVA JULIET NURU

D61/68794/2013

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

Signed ……………………..................……

Date………...............................………………….

Dr. Jackson Maalu

School of Business

Department of Business Studies

DEDICATION

This project is dedicated to my friend Lucy Kendi and my employer Bishop James K.Ziro (HSC) for being supportive. May the Lord bless them abundantly.

ACKNOWLEDGEMENT

I thank God, for giving me the means to complete this project. My greater appreciation goes to my parents for always being supportive. My friend Angela Masinde and finally to my supervisor Dr. Jackson Maalu for his time and dedication to ensure that I completed the project in time.

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ABSTRACT

Building strong differentiation strategy to attain competitive advantage is a top priority amongstmany firms but it is not always an easy task to accomplish. Due to the increased globalization and competition, the management of strategy has become of importance and thus presents an interesting area to study. With the adoption of effective differentiation strategies, many companies may compete effectively and efficiently. This study, therefore, set out to investigate the influence of differentiation strategy on performance of branded bottled water, with special focus on the contributory roles of its various elements in influencing performance. The specific objective of the study was to determine the influence of differentiation strategy on performance of water bottling companies in Mombasa County, Kenya. Investigate the extent to which water bottling companies in Mombasa county use differentiation strategy. A cross-sectional explanatory design will be used. The target population in this studywas the registered water bottling companies in Mombasa County, Kenya. Both primary and secondary data was used. Primary data was collected using semi-structured questionnaires and an interview guide. Secondary data was collected through records and documents review. Descriptive statistics was used to summarize the properties of the mass data. Inferential statistics was derived using Pearson's correlation and logistic regression analysis. Content analysis was carried out for qualitative data. The research results were presented in percentages, tables and graphs. The findings of the study show that there is a positive relationship between differentiation strategy and firm performance.Product differentiation strategy contributes more to the performance of water bottling companies than service differentiation strategy. At 5% level of significance and 95% level of confidence, product differentiation strategy had a 0.000 level of significance and service differentiation strategy showed a 0.005 level of significant. Hence the most significant factor is product differentiation strategy.

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Differentiation in business refers to the art of marketing a particular product or service in a way that makes it stand out against other products or services. This involves differentiating it from competitors' products as well as a firm's own product/service offerings. The concept was proposed by Edward Chamberlin in his 1933 Theory of Monopolistic Competition. Johnson and Scholes (2002) conducted a research and found out that distinctive marketing competencies are skills which businesses can develop to form the basis for competitive advantages over their competitors. This therefore means that differentiation strategy has the potential of creating competitive advantages to a firm which leads to improved sales performance.

Performance is defined in terms of resource consumption to achieve good results. The resource-based view theory emphasizes the firm’s practices and resources as the fundamental determinants of performance (Ramos-Rodriguez and Ruiz-Navarro,2004). Knowledge-based theory considers knowledge as the most strategically significant resource of a firm as it is difficult to imitate and source of sustained competitive advantage and corporate performance (Ludwig and Pemberton,2011).Contingency theory argues that competitive strategies used by firms and time to time contextual and not a ‘one-size-fits-all’ (Meilich, 2003).Thus, there is no one or single best way or approach to manage organizations

The bottled water industry like other enterprises face other unique challenges like lack of quality access to requisite information, unavailability of credit, poor market research and poor market for their products. Despite these challenges, they continue to play a major role in providing income for the country. There exist in the Kenyan Industry, over 100 companies which sell an estimated 424million liters of bottled water in the country annually, valued at about KES 12 billion(KRA, 2012). The bottled water industry in Kenya continued to perform well in 2011, registering a growth of 10% in total volume terms.

1.1.1Differentiation Strategy

Differentiation in business refers to the art of marketing a particular product or service in a waythat makes it stand out against other products or services. This involves differentiating it fromcompetitors' products as well as a firm's own product/service offerings. The concept was proposed by Edward Chamberlin in his 1933 Theory of Monopolistic Competition. Walters andKnee (1989), and Johnson and Scholes (2002) conducted a research and found out that distinctive marketing competencies are skills which businesses can develop to form the basis for competitive advantages over their competitors. This therefore means that differentiation strategy has the potential of creating competitive advantages to a firm which leads to improved sales performance. The generic of differentiation strategy involves creating a market position that is perceived as being unique industry- wide and that is sustainable over the long run. Such differentiation can be based on design or brand image distribution.

Pearce and Robinson (2005) aver that differentiation strategies are based on providing buyers with something that is different or unique, that makes the company’s strategic positioning, product or service distinct from that of its rivals. Superior value is created because the product is of higher quality, is technically superior in some way, comes with superior service, or has a special appeal in some perceived way. In effect, differentiation builds competitive advantage by making customers more loyal - and less price-sensitive- to a given firmsproduct/service. Additionally, consumers are less likely to search for other alternative products once they are satisfied. Hernant, Mikael and Thomas (2007). Some of the differentiation strategies adopted by organizations to foster sales performance evolve around interplay of various elements of the retail mix. These include: offering qualityproducts, wide selection, assortment, strategic positioning, after-sales-service, quality service, convenient location, parking space, attractive design and layout, conducive atmosphere, sales incentives, convenient operating hours, own branding/value addition and a one-stop-shop. Carpenter and Moore (2006). Economically valuable bases of product differentiation can enable a firm to increase its revenues, neutralize threats and exploit opportunities.

1.1.2 Firm Performance

Performance concept is multidimensional involving elements such as: economic performance (sales, productivity, profit), social performance (employee and customer satisfaction), legal performance (obeying of laws and law-like recommendations), or social performance (adopting of conduct norms based on ethical considerations) (Hernant, 2009).The performance of any business organization is affected by the strategies that the organization has chosen (Mutuku,2005). Hunger and Wheelen (1995) say that strategies, which are a set of managerial Differentstakeholders require different performance indicators to enable them make informed decisions (Manyuru, 2005).Lusch and Laczniak (1989) defines business performance as the total economic results of the activities undertaken by an organization. The performance of any business organization is affected by the strategies the organization has chosen (Mutuku, 2005). Hunger and Wheelen(1995) says that strategies, which are a set of managerial decisions and actions determine the long-term of the corporation. Performance in an organization may take many forms depending on whom and what the measurement is meant for. Different stakeholders require different performance indicators to enable them make informed decisions (Manyuru, 2005). Measurement of firm performance generally include such bottom-line, financial indicators as sales, profits, cash flow return on equity and growth (Dess and Robinson, 1984).However, Thompson et al., (2007) notes that using financial measures alone overlooks the fact that what enables a company achieve or deliver better financial results from its operations is the achievement of strategic objectives that improve its competitiveness and market strength. Non-financial measures include innovativeness (Goldsmith and Clutterbuck, 1984) and market standing (Saunders and Wong, 1985; Hooley and Lynch, 1985).

1.1.3 Beverage Industry in Kenya

The bottled water industry in Kenya started in 1992, with the entry of Keringet mineralwater, which was billed as the first natural underground mineral water. In 1992 theconcept was relatively new and buying and using bottled water then was seen asindicators of social and economic class. In the subsequent years, many new companiesentered the market, and the perception of buying bottled water changed overtime fromclass to health consciousness. Health concerns remain a key driverbehind the rising sales of bottledwater. There is an increased daily intake of water among consumers: either because they want to follow a healthier diet or because theywish to maintain their fluid intake as part of a weight-loss regime. Consumers also see it as a lifestyle choice - forsaking caffeine and carbonate in favour of water (Euromonitor International, 2012).Kenya four main types of bottled water. They include spring water, mineral water,sparkling water and purified water.

1.2 Research Problem

Some streams of research advocate the value of being different. Forexample, the population ecology perspective argues that firms can avoid intense competition forlimited resources by avoiding densely populated regions or by differentiating themselves fromtheir competitors (Baum and Mezias, 1992; Hannan, Ranger-Moore, and Banaszak-Holl, 1990).The resource-based view also emphasizes the value of rarity or uniqueness in achievingcompetitive advantages (Barney, 1991).These studies revealed the existence of differentiation strategies in the firms studied. Other studies have found that the link between differentiation strategy and performance was lessened by situational variables, such as a focus on manufacturing and profitability (Davis and Schul, 1993; Zahra, 1993).
However, it is not clear whether the adopted differentiation strategies have any effect on the sales performance in terms of annual sales revenue. No research has been carried out to determine the effect of these strategies on sales performance, and thus a gap of knowledge. This therefore justifies the need for further research in this area. Thus, the research question this study sought to answer is*:* the influence of differentiation strategies on performance of branded bottled water among water branding companies in Mombasa County.

The bottled water industry was chosen owing to the fact that there has been a rapid increase of bottled water industry in Kenya which is propelled by the strong forces of globalization and urbanization. They have branded and positioned themselves by capitalizing on the superior value of the unique l features, products and services and thus enjoy more profits differentiating them from rivals to improve sales performance.

1.3 Research Objectives

The objectives of this study were to:

i. Determine the extent of differentiation strategy among the bottled water companies in Mombasa County.
ii. Determine the influence of differentiation strategy of bottledwater on performance among bottled water companies in Mombasa County.

1.4 Value of The Study

This study provides an assessment of differentiation strategy influence on performance, andthe role of industry context mitigating this relationship. The study also provides someexposure to the rapidly evolving Kenyan competition in the market. This type of information is likely to be of tremendous value to strategy managers seeking to gain a competitive edge within a rapidly evolving Kenyan market place.

Policy makers include the government and the various legal institutions that are concerned with the operations and regulations of bottled water industry. Thepolicy makers will use the results of this study to come up with the required policiesand laws that will be more productive to the economy as a whole as well as addingvalue to the industry itself.

Bottled water has become an integral part of the lives of Kenyan consumers, and has resulted in over 100 companies vying for sales volume in the marketplace, thus the need for differentiation strategy to gain competitive advantage and thus good performance. While most research have been done on branding, this study focused on the extent to which differentiation strategy can influence performance. The research methods and approaches adopted in this study will assist future researchers who would wish to investigate similar or related phenomena in this research area.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the past or previous studies that have been done and theories advanced on differentiation strategies. The chapter is hence broken down into theoretical literature, empirical literature and summary.

2.2 Theoretical Literature

Theory plays a vital role in the research process. It is not only an important source for the generation of problems and hypothesis, but, just as important, the meaning and significance of key concepts can only be interpreted within the context of a theory. Theoretical systems combine taxonomies and conceptual framework by relating descriptions, explanations and predictions in a systematic manner. A theoretical system is comprised of propositions that are interrelated in a way that permits some prepositions to be derived from others. A theoretical system, such as Durkheim's, provides a structure for an inclusive explanation of empirical phenomenon; its scope is not limited to one particular aspect of the event to be explained. A theoretical system also consists of a set of propositions. However, contrary to their status within a conceptual framework, these propositions form a deductive system. The theoretical framework refers to a structure of concepts that exists (tested) and is a ready-made map for a study. It consists of theories, principles, generalizations and research findings which are closely related to the present study under investigation. It is in this framework where the present research problem understudy evolved.

Faced with competition, water companies are developing strategies for competitiveness and survival such as management of corporate identity in order to positively impact on their corporate image and brand performance. Corporate identity thus can be explained by these two economic theories. The Knowledge-based theory and resource-based view of the firm explains the sustainable competitive advantage and guides on practices that could create more value for an organization (Cravens, 1998; Fahy&Smithee, 1999).

2.2.1 Knowledge-Based Theory

Knowledge-based theory of the firm considers knowledge as the most strategically significant resource of a firm. Its proponents argue that because knowledge-based resources are usually difficult to imitate and socially complex, heterogeneous knowledge bases and capabilities among firms are the major determinants of sustained competitive advantage and superior corporate performance. This knowledge is embedded and carried through multiple entities including organizational culture and identity, policies, routines, documents, systems, and employees. Originating from the strategic management literature, this perspective builds upon and extends the resource-based view of the firm (RBV) initially promoted by Penrose (1959) and later expanded by others (Barney 1991, Conner 1991).

Although the resource-based view of the firm recognizes the important role of knowledge in firms that achieve a competitive advantage, proponents of the knowledge-based view argue that the resource-based perspective does not go far enough. Specifically, the RBV treats knowledge as a generic resource, rather than having special characteristics. It therefore does not distinguish between different types of knowledge-based capabilities. Information technologies can play an important role in the knowledge-based view of the firm in that information systems can be used to synthesize, enhance, and expedite large-scale intra- and inter-firm knowledge management (Alavi and Leidner 2001). Whether or not the Knowledge-based theory of the firm actually constitutes a theory has been the subject of considerable debate.

See for example, Foss (1996) and Phelan and Lewin (2000). The characteristics of the current business scenarios in which enterprises operate, where their role is becoming more proactive in terms of gain, achieve, thanks to a competition for which they were prepared to offer their best products with the seal of a quality that turns to advantage, leads to consider the scope, role of contingency theory, an aspect that should be considered by management.

2.2.2 Resource -Based View Theory

The resource-based view of the firm (RBV) draws attention to the firm's internal environment as a driver for competitive advantage and emphasizes the resources that firms have developed to compete in the environment. During the early strategy development phase of Hoskisson's account of the development of strategic thinking (Hoskisson*et al*, 1999), the focus was on the internal factors of the firm. From the1980s onwards, according to Furrer*et al*,(2008), the focus of inquiry changed from the structure of the industry, e.g., Structure-Conduct-Performance (SCP) paradigm and the five forces model) to the firm's internal structure, with resources and capabilities (the key elements of the Resource-Based View (RBV). Since then, the resource-based view of strategy (RBV) has emerged as a popular theory of competitive advantage (Furrer*et al*, 2008; Hoskisson*et al*, 1999).

The origins of theRBV go back to Penrose (1959), who suggested that the resources possessed, deployed and used by the organization are really more important than industry structure. The term 'resource-based view' was coined much later by Wernerfelt(1984), who viewed the firm as a bundle of assets or resources which are tied semi-permanently to the firm (Wernerfelt 1984). Prahalad and Hamel (1990) established the notion of core competencies, which focus attention on a critical category of resource – a firm's capabilities. Barney (1991) also argued that the resources of a firm are its primary source of competitive advantage.

To transform a short-run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile; valuable resources that are neither perfectly imitable nor substitutable without great effort (Barney, 1991). If these conditions hold, the bundle of resources can sustain the firm's above average returns. Thus, to be competitive, a firm's resources must be: valuable (resource must enable a firm to employ a value-creating strategy, by either outperforming its competitors or reduce its own weaknesses); rare (resource must be rare by definition and of expected discounted future above-average returns);inimitable (competitors are not able to duplicate this strategic asset perfectly); and,non-substitutable (if competitors are able to counter the firm's value-creating strategy with a substitute, prices are driven down to the point that the price equals the discounted future rents) (Rumelt, 1984; Peteraf, 1993; Amit and Schoemaker, 1993;Ludwig and Pemberton, 2011).

Thus, true competitive advantage requires the firm's resource to display each of the four characteristics (valuable, rare, inimitable and non-substitutable) to be a possible source of a sustainable competitive advantage (Crook, Ketchen, Combs, and Todd,2008; Ludwig and Pemberton, 2011)

2.3 Empirical Literature

The value of being different has been studied by many researchers of different theoretical backgrounds. Despite the heterogeneity of the context of their studies, researchers in strategic management agree that a firm may face less competition by differentiating itself from others hence good performance. (Baum and Mezias, 1992; Barney, 1991; Hannan*et al.*, 1990; Porter, 1991). From a population ecology perspective, the finite nature of the environment is such that firms occupy a distinct niche and compete for essential resources. From this point of view, a firm out-competes its competitors only when it locates itself in a niche where it possesses exclusive access to their sources it requires for survival (Hannan and Freeman, 1977). This ecological approach to competition assumes that the market has finite level resources. Subsequent research that adoptsthis ecology perspective thus argues that organizations compete more intensely when their resource requirements are similar (Baum and Mezias, 1992; Baum and Singh, 1994; Hannan*etal.*, 1990). From this perspective, a firm can avoid competition for limited resources by departing from densely populated regions or differentiating itself from its competitors and therefore good firm performance.

Another stream of research that emphasizes the benefits of being different derives from the resource-based theory perspective. In this view, it is essential for a firm to preoccupy valuable, non-substitutable, rare, and inimitable resources in order to sustain good firm performance over its competitors (Barney, 1991). Because of their very nature, rare and inimitable resources require that a firm exploit and deploy them in a unique way compared to its market competitors; in other words, the way a firm operates in the market differentiates it from its competitors. Since successful strategies are more likely to be imitated (Haveman, 1993) and mimetic behaviors can arise under conditions of uncertainty (Cyert and March, 1992; DiMaggioand Powell, 1983), a successful firm's rare and inimitable resources are always at risk of being imitated by its competitors. Therefore, a firm should constantly strive to differentiate itself from its competitors and seek rare and inimitable resources with which to sustain its competitive advantage and continually improve its sales hence good performance.

According to a study conducted by Obado (2005) on Kenyan Sugar manufacturing firms, The firms achieved differentiation by branding their sugar, distribution networks and customer service. Differentiation involves offering products or services that are perceived industry-wide as being unique (Porter, 1998). A company thus designs to appeal to customers with a special sensitivity for a particular product attribute which in turn helps build customer loyalty. This loyalty helps the company to charge premium prices for its products (Pearce & Robinson, 1997). To build competitive advantage through differentiation, a firm must search out sources of uniqueness that are burdensome and time consuming for rival to match (Thompson and Strickland, 2003). Other indicators of differentiation in hotels are; variety of services, quality of services offered and use of modern equipment in service delivery.

Barney (1997) says that though a company may have several basis of differentiation, at the end it is only a matter of customer perception. Approach to differentiation can take many forms such as design and brand image, technology, product features, customer service or dealer networks (Porter, 1998). All these create perpetual barriers against competitors (Pearce & Robinson, 1997). Advantages of differentiation are that it provides insulation against competitive rivalry because of brand royalty by customers; it increase margins which avoids the need for low cost position and positions the firm better vis-à-vis substitute products than its competitors (Porter, 1998). A differentiation strategy is one in which a firm offers products or services with unique features that customers value (Ndubai, 2003). The value added by the uniqueness commands a premium price.

According to Coutler (2002) the key characteristics of differentiation strategy is perceived quality whether real or not. This may be through superior product design, technology, customer service or other dimensions. Differentiation strategy calls for development of a product or service that offer, unique attributes to the customers. The firm hopes to cover the extra costs by the premium price commanded by the product or service uniqueness. If suppliers increase their prices, the firm may be able to pass along the costs to its customers who cannot find substitute products easily (http: www.quickmba.com/strategy/generic,shtml,6th July 2002).

The advantage of differentiation strategy is that the perceived quality insulates a company from threats from any of the five forces that determine the state of competition in an industry. Again, firms using differentiation strategy have some internal strength including high research and development capabilities, strong sales team and corporate reputation for quality and innovation. Brand loyalty protects a firm from threats of substitute products. Rothschild (1984) contends that differentiation is often the secret to extending the life cycle of business and making it more expensive to enter and follow. The risks associated with differentiation strategy include imitation by competition and changing customer tastes and preferences. The shelf life of differentiation strategy is getting shorter and shorter.

Differentiating the product offering of a firm means creating something that is perceived industry wide as being unique. It is a means of creating your own market to some extent. There are several approaches to differentiation: Different design, brand image, number of features, new technology. A differentiation strategy may mean differentiating along two or more of these dimensions. Differentiation is a defendable strategy for earning above average returns because: It insulates a firm from competitive rivalry by creating brand loyalty; it lowers the price elasticity of demand by making customers less sensitive to price changes in your products. Uniqueness, almost by definition, creates barriers and reduces substitutes. This leads to higher margins, which reduces the need for a low-cost advantage. Higher margins give the firm room to deal with powerful suppliers. Differentiation also mitigates buyer power since buyers now have fewer alternatives.

Achieving a successful strategy of differentiation usually requires the following: Exclusivity, which unfortunately also precludes market share and low cost advantage, strong marketing skills, product innovation as opposed to process innovation, applied R&D, customer support and less emphasis on incentive based pay structure (Porter,1998). Theuri (2003) who studied branded fast food outlets found that the fast food chains served specific target markets. They also offered variety of products and services besides ensuring high quality in their products and service.

Marketing activities like advertisements and sales promotions were also existent. Studying the competitive strategy employed by the pharmaceutical industry, Ndubai (2003) found that the retail firms emphasized on customer service to enhance the image. Other strategies include choice of strategic locations, stocking other items like cosmetics, surgical and diagnostic items, mobile phones and scratch cards and also ensuring cleanliness and enough lighting in the shops. Attractive counter displays, staff uniforms and road sign boards were used as strategies. The major challenge faced is unethical competition which leads to price undercutting in the sector.

2.4 Summary

In sum, differentiation strategy has received a great deal of academic attention, its literature has been successful in providing practical implications. There is a relationship between differentiation strategy and firm performance. This paper seeks to determine the influence of differentiation strategy on firm performance of branded bottled water among water bottling industry in Mombasa County.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlights the methodology that was adopted by the researcher in order to execute the study and realize its objectives. It includes research design, population, data collection and data analysis.

3.2 Research Design

This study is a descriptive cross sectional survey. This design focused at a subset of the population at a particular point in time. Cross-sectional research takes a representative sample of its target group and bases its overall findings on the views of those targeted; assuming them to be typical representative of the whole group therefore allowing for generalizations. The method was useful in identifying practices in water bottling industry in Mombasa County.

Descriptive research design is concerned with finding out about how, who, when and where of a phenomenon so as to build a profile (Mugenda and Mugenda, 2003). Their search design was preferred because it has the ability to build a profile. Mugenda andMugenda (2003) further describes descriptive research design as a systematic, empirical inquiring into which the researcher does not have a direct control of independent variable as their manifestation has already occurred or because the inherently cannot be manipulated.

3.3 Population of the Study

Population refers to an entire group of individuals, events or objects having a common observable characteristic. In other words, it is the aggregate of all that conforms to a given specification (Mugenda & Mugenda, 2003). The population for this study included all the water bottling companies in Mombasa County. There are thirty four (34) water bottling companies which include Aqua Mist Ltd, Blue Wave Ltd, Coast Water Services Board, Danar Ltd, Mombasa Water Products, Nairobi Mineral Water, Oasis Mineral Water, Pearly Waters Ltd, World Trade Ltd among others. (Kenya National Chamber of Commerce and Industry, 2015)

3.4Data Collection

The study used both primary and secondary data. Primary data was collected by the help of a questionnaire with both open-ended and close-ended questions. The closed-ended questions provided more structured responses to facilitate tangible recommendations. The open-ended questions provided additional information to the one that was captured in the closed ended questions.

Data collection procedure specifies the details of the task. It emphasizes the data obtained and its sources. To obtain data from respondents, questionnaires were administered by the researcher with the assistance from the research assistant. To avoid misrepresentation and to minimize errors, the researcher ran a pre-test of the questionnaires before the actual data collection. The questionnaire was carefully designed and pre-tested with a few members of the population and the supervisor for further improvements. This was done in order to enhance its validity and accuracy of data to be collected for the study.

3.5 Data Analysis

After data collection, a thorough check was done to the questionnaires before coding and entering the data in software (Statistical Package for Social Sciences) for analysis. Quantitative data was analyzed by the use of descriptive statistics i.e. Percentages, means, standard deviations and frequencies. The information was presented using frequency tables and in prose-form. In addition, the researcher conducted a regression analysis in order to establish the Influence of differentiation strategy on performance of branded bottled water among water branding companies in Mombasa County.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND PRESENTATION

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The purpose of the research was to establish how differentiation strategies influence performance of water bottling companies in Mombasa County. The study was carried out successfully and the findings are presented in tables then followed by discussion. The results presented are based on the research questions. The primary data was gathered exclusively from questionnaire as the research instrument. Questionnaire was designed in line with the objectives of the study. The data is presented in qualitative research form followed by discussions of the data results. The chapter concludes with critical analysis of the findings.

4.2 Response Rate

The response rate of a survey is a measure of how many people approached, (i.e. 'sampled') actually completed the survey (expressed as a percentage from 0% to 100%). It is usually assumed that the higher the response rate, the more likely the results are representative of the population. Table 4.1 shows the response rate from the sample size.

Table 4.1: Response Rate

Response	Frequency	percentage (%)
Filled in questionnaires	28	82
Un returned questionnaires	6	21

Source : Researcher (2015)

The questionnaires were distributed to 34 respondents, out of which 28 filled in and returned the questionnaires, making a total response rate of 82% as shown on table 4.1. The response rate was generally good and conforms to Mugenda and Mugenda (1999) stipulation, that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70%and above is excellent. The response rate of the study was a good representative of the target population capable of producing useful results.

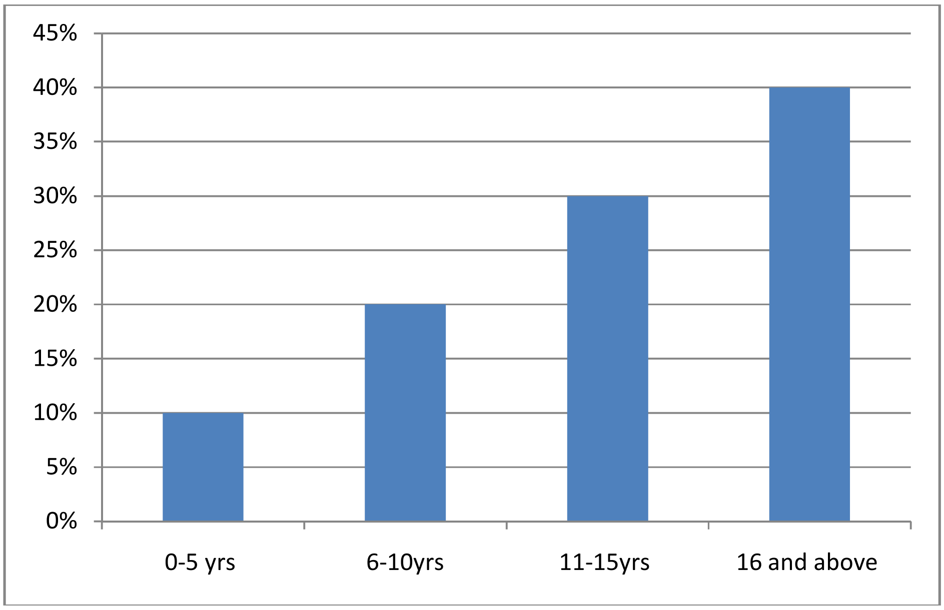
4.3 General Background of the Organization

This section was aimed to provide a profile of the organizations involved in the study in terms of the number of years the company has been in operation in Mombasa County, the number of working hours of the company and the annual performance of the company.

4.3.1 Number of years the company has been in operation in Mombasa County

The respondents were requested to specify the number of years the company has been in operation in Mombasa County. The results are as shown in the Figure 4.1

Figure 4.1 Number of years the company has been in operation in Mombasa County



Source: Researcher (2015)

Figure 4.1 presents findings on the number of years that the company has been in operation in Mombasa County. From the findings, 10% of the respondents had been in operation for less than 5 years, 20% of the respondents had been in operation between6 - 10 years,30% of the respondents had been in operation between 11 - 15 years, 40% of the respondents had been in operation for more than 16 years. This has been supported by the Business Daily dated August 28th 2013 which linked the performance of these water bottling companies to the number of years they have been in existence and made a conclusion that most of them have been able to perform well due to the economic lessons learnt over time.

4.3.2 Working Hours of The Company

The respondents were requested by the researcher to indicate the number of working hours of the company. The results are as shown in Table 4.2.

Table 4.2 working hours of the company

Duration of working hours	Frequency	percentage (%)
12hours	12	43
13-18 hours	10	36
24 hours	6	21
Total	**28**	**100**

Source: Researcher (2015)

Figure 4.2 presents findings on the working hours of the company. From the findings, 43% of the respondents work for 12hrs, 36% of the respondents work for 13 – 18hrs while 21% of the respondents work for 24hrs.

4.3.4 Annual Performance of the Company

The study sought to find out the annual performance of the water bottling companies in terms of their sales performance, net profit and the number of clients served.

Table 4.3: Sales Performance

Annual Sales Turnover	Frequency	Percentage (%)
Less than 0.5 Billion	3	11
0.5-1.0 Billion	7	25
1.1-1.5 Billion	7	25
Over 1.6 Billion	11	39
Totals	**28**	**100**

Source: Researcher (2015)

Table 4.3 represents the performance of the company in terms of sales turnover. From the study findings, 11% of the respondents make sales of less than 0.5 billion a year, 25%of the respondents make sales of between 0.5 -1.0 billion a year, 25%of the respondents make sales of between 1.1 -1.5 billion a year, while 39% of the respondents makes sales of over 1.6 billion.

Table 4.4 : Net Profit

Annual Net Profit	Frequency	Percentage (%)
Less than 0.5 Billion	4	14
0.5-1.0 Billion	5	18
1.1-1.5 Billion	6	21
Over 1.6 Billion	13	47
Totals	**28**	**100**

Source: Researcher (2015)

Table 4.3 represents the performance of the company in terms of net profit. From the study findings, 14% of the respondents make a net profit of less than 0.5 billion a year, 18%of the respondents make a net profit of between 0.5 -1.0 billion a year,21% of the respondents make a net profit of between 1.1- 1.5 billion a year while 47% of the respondents make a net profit of over 1.6billion.

Table 4.5: Number of Clients Served

Number of Clients Served	Frequency	Percentage (%)
High	11	39
Very High	10	36
Low	7	25
Totals	**28**	**100**

Source: Researcher (2015)

Table 4.3 represents the performance of the company in terms of number of clients serves yearly. From the study findings, 39% of the respondents have got high number of clients served, 36% of the respondents have got very high number of clients services per year while 25% of the respondents have got low number of clients served yearly.

4.4 The Extent to which Water Bottling Companies have adopted Differentiation Strategy

The respondents were requested to indicate the extent to which their water bottling companies had adopted differentiation strategy. The results are as shown in Table 4.3.

Table 4.6.The Extent to which Water Bottling companies have adopted Differentiation Strategy

statement	Frequency	Percent
To a very great extent	9	32%
To a great extent	12	43%
To a moderate extent	4	14%
To a little extent	2	7%
To no extent	1	4%
Total	**28**	**100%**

Source: Researcher (2015)

Table 4.3 presents the extent to which the company has adopted Differentiation Strategy, from the findings 32% of the respondents use it to a very great extent,43%of the respondents use it to a great extent,14%of the respondents use itto a moderate extent,7%of the respondents use it to a little extent while 4%of the respondents do not use it at all.

4.4.1 Service Differentiation Strategy

The study sought to find out the extent to which the water bottling companies had used Service differentiation strategy. The results are as shown in table 4.4

Table 4.7: The extent to which the company has adopted Service Differentiation Strategy

Statement	Frequency	Percentage (%)
After sale services	25	89
Retailer’s own brands / value addition	28	100
Advertising and Promotion	22	79
Service quality	20	71
Core competencies	26	93
Operating hour	24	86
Sales incentive programs	22	79

Source: Researcher (2015)

From the findings of table 4.4 above 25 companies use after sales services as a differentiation strategy to 89% extent, 28 companies use retailers own brands as a differentiation strategy to 100% extent, 22 companies use advertising and promotion as a differentiation strategy to 79% extent, 20 companies use service quality as a differentiation strategy to 71% extent, 26 companies use core competencies as a differentiation strategy to 93% extent, 24 companies use operating hours as a differentiation strategy to 86% extent while 22 companies use sales incentive programs as a differentiation strategy to 79% extent.

4.4.2ProductDifferentiation Strategy

The study sought to find out the extent to which the water bottling companies had used Product differentiation strategy. The results are as shown in table 4.5

Table 4.8The extent to which the company has adopted Product Differentiation Strategy

Statement	Frequency	Percentage (%)
Product quality	25	89
Product selection	28	100
Product assortment	22	79
Product position	20	71

Source: Researcher (2015)

From the findings of table 4.4 above 25 companies use product quality as a differentiation strategy to 89% extent, 28 companies use product selection as a differentiation strategy to 100% extent, 22 companies use product assortment as a differentiation strategy to 79% extent while 20 companies use product position as differentiation strategy to 71% extent.

4.5 Effects of Differentiation Strategy on Sales Performance of Water Bottling Companies

The study sought to find out the effects of differentiation strategy on sales performance of water bottling companies in Mombasa County. The results are as shown in table 4.6

Table 4.9 How Product differentiation strategy affects performance

Statement	Mean	Std. Dev.
Ensuring stocking of high quality products	3.961	1.051
Exercising diligence in selecting suppliers of products	3.246	0.637
Product selection is based on customer specification	4.113	0.983
Product selection is demand driven	3.621	1.007
Product assortment style is distinct from competitors	3.238	1.043

Source: Researcher (2015)

From the data findings, the respondents strongly agreed on the statement that Ensuring stocking of high quality products as shown by mean of 3.961. On whether exercising diligence in selecting suppliers of products; the respondents agreed as shown by mean of 3.246.On whether Product selection is based on customer specification; the respondents strongly agreed as shown by mean of 4.113. The respondents strongly agreed that when Product selection is demand driven, it promotes the companies' performance as shown by mean of 3.621. From the data findings, the respondents agreed on the statement that when product assortment style is distinct from competitors, it promotes companies' performance as shown by mean of 3.238.

Table 4.10How Service differentiation strategy affects performance

The study also sought to establish how service differentiation strategy affects performance of water bottling company in Mombasa County as shown in Table 4.7

Statement	Mean	Std. Dev.
We offer transport service to our customers	4.11390	1.01931
We add value to our products through repackaging of items	3.98803	0.92118
We use celebs for advisement and promotion of our company	3.92790	1.02397
We offer online shopping services	3.83700	0.84308
Our customers are able to get most of their items under one roof	3.49091	0.90689
Service delivery is fast in our company	3.78082	0.87720
There is promptness in handling customers complaints/inquiries	3.37397	1.01036
We have skilled and experienced staff	3.92790	1.02397

Source: Researcher (2015)

According to the study, most of the water bottling companies indicated that offering of transport service tocustomers with a mean of 4.11, adding value to productsthrough repackaging of items with a mean of 3.99, using celebs for advisement and promotion of the company with a mean of 3.93, offering online shopping services with a mean of 3.87 and promptness in handling customers complaints/inquiries with a mean of 3.78 were employed as drivers to service differentiation strategy. This therefore means that service differentiation strategy is largely used mainly through online shopping services, service delivery and promptness in handling customers' complains.

4.6 Differentiation Strategy and Firm Performance

Multiple regressions is a flexible method of data analysis that may be appropriate whenever a quantitative variable, the dependent or criterion variable, is to be examined in relationship to any other factors, expressed as independent or predictor variables. Relationships may be nonlinear, independent variables may be quantitative or qualitative, and it could examine the effects of a single variable or multiple variables with or without the effects of other variables taken into account (Cohen, 2003).

To evaluate differentiation strategies which were adopted by water bottling companies in Mombasa County, a number of regressions were undertaken to determine the relationship that existed between differentiation strategies and firm performance and were tabulated.

Table 4.11 Coefficient of determination

Model	**Unstandardized Coefficients**		**Standardized coefficients**	**T**	**Significance**
	B	**Std. Error**	**Beta**		
(Constant)	2.976	1.384		0.978	0.003
Product Differentiation Strategy	0.877	0.159	0.897	0.997	0.000
Service Differentiation Strategy	0.588	0.085	0.455	0.707	0.005

Source: Researcher (2015)

As per table 4.5, the equation ($\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon}$)

Becomes:

$Y = 2.976 + 0.897X_1 + 0.455X_2 + \varepsilon$

Where Y is the dependent variable (performance of water bottling companies), X_1 is the product differentiation strategy variable and X_2 is the service differentiation strategy variable.

According to the regression equation established, taking all factors into account (product differentiation strategy variable and the service differentiation strategy variable) and the constant to be zero, performance of water bottling companies will be 2.976 .The data findings analyzed also show that taking all other independent variables at zero, a unit increase in product differentiation strategy influences will lead to a 87.7% increase in performance of water bottling companies; a unit increase in service differentiation strategy variable will lead to a 58.8% increase in performance of water bottling companies.

This concludes that product differentiation strategy contributes more to the performance of water bottling companies than service differentiation strategy. At 5% level of significance and 95% level of confidence, product differentiation strategy had a 0.000 level of significance and service differentiation strategy showed a 0.005 level of significant. Hence the most significant factor is product differentiation strategy.

4.6 Discussion of Findings

The study established that according to Barney (1997), though a company may have several basis of differentiation, at the end it is only a matter of customer perception. Approach to differentiation can take many forms such as design and brand image, technology, product features, customer service or dealer networks (Porter, 1998). All these create perpetual barriers against competitors (Pearce & Robinson, 1997). Advantages of differentiation are that it provides insulation against competitive rivalry because of brand royalty by customers; it increase margins which avoids the need for low cost position and positions the firm better vis-à-vis substitute products than its competitors (Porter, 1998). The study also established that a differentiation strategy is one in which a firm offers products or services with unique features that customers value (Ndubai, 2003). The value added by the uniqueness commands a premium price. According to Coutler (2002) the key characteristics of differentiation strategy is perceived quality whether real or not. This may be through superior product design, technology, customer service or other dimensions. Differentiation strategy calls for development of a product or service that offer, unique attributes to the customers. The firm hopes to cover the extra costs by the premium price commanded by the product or service uniqueness. If suppliers increase their prices, the firm may be able to pass along the costs to its customers who cannot find substitute products easily (http: www.quickmba.com/strategy/generic,shtml,6th July 2002)

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings from the study, gives conclusion and recommendation of the study with reference to the topic of the study that was to find out the influence of differentiation strategy on performance of water bottling companies in Mombasa County.

5.2 Summary

The study shows that 61% of the respondents agreed that differentiation strategy affects performance of water bottling companies while 39% did not agree that differentiation strategy affects performance of water bottling companies.

From the data findings, majority of the respondents agreed that differentiation strategy affects performance of water bottling companies and 43% of the respondents indicated that differentiation strategy influence performance of water bottling companies to a great extent.

From the data findings, the respondents strongly agreed on the statement that Ensuring stocking of high quality products as shown by mean of 3.961. On whether exercising diligence in selecting suppliers of products; the respondents agreed as shown by mean of 3.246. On whether Product selection is based on customer specification; the respondents strongly agreed as shown by mean of 4.113. The respondents strongly agreed that when Product selection is demand driven, it promotes the companies' performance as shown by mean of 3.621. From the data findings, the respondents agreed on the statement that when product assortment style is distinct from competitors, it promotes companies' performance as shown by mean of 3.238.

From the findings of table 4.7, 89% of the respondents indicated that there was increased performance due to after sale services, 100% resulted from value addition, 79% was as a result of advertising and promotion, 71% increment from service quality, 93% of the respondents indicated that there was an increase in performance due to core competences, 86% indicated raise in performance resulting from operating hours and finally 79% of respondents indicated a rise in performance as a result of sales incentive programs.

5.3 Conclusion

The study concludes differentiation strategy if adopted in water bottling companies affects their performance. The study concludes that there was increased sales performance, increased net profit and increased number of clients served all as a result of differentiation strategy.

The study further concludes that most companies focus on product differentiation strategy more than service differentiation strategy.

5.4 Recommendations

The outcome of this research has given precious assessment which can be used for designing disparate strategies to beguile consumers with emphasizing on brand equity in fast moving consumer goods. Managers should remember that there are some factors influencing consumer's choice towards brand equity. Based on the results from this research finding, managers should prioritize brand equity constructs as their strategy toattract potential customers because it does show significant direct and indirect relationships between the dimensions of brand equity and performance.

In conclusion the result of this project shows that customer based-brand equity has a great importance on consumers' choice of brand and the lack of brand equity will weaken consumers' perception. Therefore there should be a continuous effort by bottled water companies to enhance customer based brand equity. Bottled water manufacturers should bear in mind that old familiar brands die as a result of poor management of the brand, overextension and lack of investment in developing brand equity and values.

5.5 Limitations of the Study

The main objective of the study was to identify how differentiation strategy influence performance of water bottling companies in Mombasa County. There were some limitations for this study. First, the study included only a small portion of the water bottling companies in Mombasa county because of time limit. Second, the differentiation strategy pursued by water bottling companies in other towns as well as the challenges they face could be quite different as opposed to Mombasa. Finally, the researcher encountered other challenges such as non-cooperation by some of the respondents targeted for fear that information might be used for other purposes other than for academic purposes despite the assurance by the researcher that the findings would be used solely for the intended purpose hence not reaching the targeted sample size.

5.6 Areas for further Research

The researcher recommends that future research should be directed towards validating the results of this study by conducting a similar research in other sectors in Kenya by collecting data from different sources. In addition, future research should consider using a longitudinal survey.

Furthermore this study can also be extended to other types of products and services which have different decision process and purchase intentions amongst consumers.

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Appendix 1

PART A: Questionnaire for Company Managers

1. Name of company ____

2. Years of operation in Mombasa county ________________________

3. What differentiation strategies has your company put in place to counter competition fromothercompanies in Mombasa County.

a) Product oriented strategies (quality, selection, assortment, position and variety)

i. ____

ii. ____

iii. ____

iv. ____

v. ____

c) Service oriented strategies (service quality, operating hours, after-sales-services etc.)

i. ____

ii. ____

iii. ____

iv. ____

v. ____

4. Please explain how the above differentiation strategies in question 3 have contributed to the state of your company's annual sales revenue?

____

____

____

5. Please complete the following table which indicates the annual sales performance by ticking appropriately in the spaces provided.

Key :

- **A) Below** 5,000, 000
- **B) Between** 5,000,001 and 10,000,000
- **C) Between** 10,000,001 and 15,000,000
- **D) Above** 15,000,000

YEAR	**SALES PERFROMANCE (Kshs.)**				**NET PROFIT (Kshs.)**			
	A	B	C	D	A	B	C	D
2013								
2014								
2015								

YEAR	**NO OF CLIENTS SERVED**		
	HIGH	**VERY HIGH**	**LOW**
2013			
2014			
2015			

6. From the results of the above tables, comment on the annual performance trends since the adoption of differentiation strategies by your company.

____

____

____

PART B: General Information

1. Please indicate the name of your current employer________________________

2. Kindly indicate your current position ___________________________________

3. Please indicate how long you have been a member of the company.
   Less than 5 years [ ]
   6 to 10 years [ ]
   11 to 15 years [ ]
   Over 15 years [ ]

4. Company working hours
   12 hours [ ]
   13 - 18 hours [ ]
   24 hours [ ]

Product Differentiation

5. To what extent does your organization use the following product differentiation strategies?

VLE - Very Large Extent**, LE -** Large Extent**, ME-** Moderate Extent, **SE -** Small Extent **NE -** No Extent

Statement	**VLE**	**LE**	**ME**	**SE**	**NE**
Product quality					
Product selection					
Product assortment					
Products position					

Service Differentiation

6. To what extent does your organization use the following service differentiation strategies?

VLE - Very Large Extent**, LE -** Large Extent**, ME-** Moderate Extent, **SE -** Small Extent **NE -** No Extent

Statement	**VLE**	**LE**	**ME**	**SE**	**NE**
After sales services					
Retailer's own brands/value addition					
Advertising and Promotion					
Service quality					
Core competencies					
Operating hours					
Sales incentive programs					

Effects of differentiation strategy on sales performance

Product Differentiation

7. The following statements describe the adoption of product differentiation strategies at your company. Please state whether or not you agree with them?

SA- Strongly Agree, **AM-** Agree Moderate ,**DS-** Disagree Strongly, **D -** Disagree

Statement	**SA**	**AM**	**DS**	**D**
The company ensures stocking of high quality products				
We exercise diligence in selecting suppliers of our products				
Product selection is based on customer specification				
Product selection is demand driven				
Product assortment style is distinct from our competitors				
Our products are well positioned for ease access by customers				

Service Differentiation

8. The following statements describe the adoption of service differentiation strategies at your company. Please state whether or not you agree with them?

SA- Strongly Agree, **AM-** Agree Moderate, **DS-** Disagree Strongly, **D –** Disagree

Statement	**SA**	**AM**	**DS**	**D**
We offer transport service to our customers				
We add value to our products through repackaging of items				
We use celebs for advisement and promotion of our company				
We offer online shopping services				
Our customers are able to get most of their items under one roof				
Service delivery is fast in our company				
There is promptness in handling customers complaints/inquiries				
We have skilled and experienced staff				

9. Since the adoption of the differentiation strategies, what is the status of annual sales revenues compared to the periods before?

   Increasing [ ]

   Static/same [ ]

   Decreasing [ ]

THANK YOU