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# Influence of Generic Strategies on Performance of Large Dairy Firms in Kenya

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**Abstract**
Dairy industry, just like other firms focus to achieve high performance. Approaches like application of generic strategies, has been associated to performance. This study aims to assess the influence of cost leadership, differentiation, cost focus, differentiation focus strategies on performance of large dairy firms in Kenya. This study adopted a descriptive research design. This study targeted a sample of 244 senior and middle level management staff from large dairy. An interview schedule was used to collect information on generic strategies on performance indicators. Tools were tested for validity and reliability. Data were coded, cleaned and analyzed using SPSS software version 20.0 through the use of descriptive statistical and inferential methods. Descriptive statistics such as frequency, means and percentages were used to summarize the data. Pearson correlation was used to establish the influence of study variables. Multiple linear regression analysis using a multiple regression model was used to determine the extent to which the study variables predict the performance of dairy firms. Significance levels were determined at 95% confidence interval where a P-value of <0.05 was considered significant. Results show that cost leadership strategy significantly (P<0.05) influenced the performance of the firm where use of economies of scale and accessibility to cheap sources of supply reduced the cost of production consequently leading to reduced prices and increased sales. Differentiation strategy significantly (P<0.05) influenced the performance of the firm where use of brand image and improved product features led to unique products that appealed more to customers and hence more sales. In addition, cost focus strategy significantly (P<0.05) influenced the performance of the firm where lowering costs for a particular segment and concentration on a particular segment led to customers' loyalty to a product thereby increasing sales. Moreover, differentiation focus strategy significantly (P<0.05) influenced the performance of the firm where use of unique product for a particular segment and packaging made the firm's products more appealing to some specific customers. All these strategies led to improved performance through increased market share, low customer response rate and improved efficiency. Cost leadership strategy has a significant positive relationship with performance. The generic strategies led to reduced cost of production, having appealing products, increased sales and finally to improved performance. It is thus noted that cost leadership strategy, differentiation strategy, cost focus strategy and differentiation focus strategy are integral in enhancing performance. Thus, this study recommends that firms focus on generic strategies so as to improve on performance. Firms need to focus on economies of scale and to ensure that they access cheap sources of supply so as to produce products at a lower price and use brand image and improved product features so to have products that attract customers more. In addition, firms should concentrate on a particular segment in order to increase their sales as cost focus strategy was shown to be critical to performance as well as use unique product for a particular segment and unique packaging to improve performance.
**Keywords:** Generic strategies, performance, dairy firms, Kenya

## 1. Introduction

Globally, the trend of performance of large firms has been on the decline (Audia & Greve, 2006; McColgan & Hillier, 2005; John, Lang & Netter, 1992). This decline has been notable in the reduction of market share (Mukhopadhyaya, Roy & Raychudhuri, 2012; Singh, Wimble & Sabamurthy, 2009), reduced profits (Hadley, 2005) and loss of customer satisfaction (Baker, 2013). The main underlying issues has been due to high competition (Mighty, 2016; Angir, 2012; Chepkwony, 2001) and to lack of appropriate management strategies (Westphal & Bednar, 2005).

Notably decline in performance of the dairy sector in the United States dairy was due to high production costs (Hadley, 2005), in Greece, it was due to low market share (Notta & Vlachvei, 2007), in it was due to poor management (Kamande, 2015; Gitari, 2008) and in England was due to poor pricing (Cotterill, 2001). Similarly, the dairy industry in Kenya has been affected, like the collapse of Kenya Cooperative Creameries (KCC) (Chege & Bula 2015; Gitari, 2008; Omollo, 2008; Nyaberi, 2004), while other firms were bought off while they were at the verge of collapsing like Delamere Dairies (Abiero & Njeru, 2016). This has been mainly due to the competition by the informal sector which sells raw milk (Muriuki et al., 2003).

Strategic management is a key process for organization towards goal achievement (Pearce II & Robinson, 2011; Heracleous, 2010). The performance of any firm is mainly dependent on the application of management strategies as a tool to achieve a competitive advantage in the market (Magutu, 2013). A study by Aaltonen and Ikavalko (2002) recommends that strategies in an organization should be aligned to the goals, be well formulated

 

and implemented successfully. According to Scholes and Johnson (2002), business level strategies aim to establish bases for competitive advantage by understanding the market, the customers as well as core competences.

Moreover, studies have shown that use of generic strategies improved performance. The performance of a firm refers to the level of achievement of goals and the ability to compete effectively with other firms (Rapert, Lynch & Suter, 2007). The performance of a firm can be measured by the ability to achieve the objectives (Grant, 2008; Brown & Laverick, 1994). For instance study conducted in the US indicates how the use of generic strategies improved the performance of a firm (Singh, Mathur & Gleason, 2004). More studies have indicated how use of generic strategies greatly improves performance of firms (Bolo, 2011; Teo, 2000; Firth & Narayanan, 1996). Studies by Chung *et al.* (2012) and Obwana (2011), used the three grand strategies to analyze the effect on performance.

Similary, there is evidence of increased performance in dairy industry in England (Cotterill, 2001). In this regard, application of these strategies can be done in the large dairy firms. Of note is the fact that business strategies are based on theories, and a firm can adopt any of these theories as long as it aligns with the desired goals. Some of the theories are Michael Porter's three grand strategies (Akan et al., 2006) and balance score card (Kaplan & Norton, 1992).

Kenya has several corporations, with the food industry being one of the large sectors (Karanja, 2003). The dairy industry is one of the food industries that make a big contribution to the Kenyan economy (Karanja, 2003) and a significant contributor to the. Kenyan economy. In fact, milk and milk products consumption is common throughout the world, yet dynamics that affect milk production are country specific (Nyariki & Thirtle, 2000). Kenya has approximately 60 dairy firms. Currently, 14 per cent of milk sold by the formal sector is equivalent to approximately 196 million litres. The formal dairy firms are categorised into, large scale, middle level and small firms and this categorization is in terms of production per day. The dairy industry in Kenya operates at both small and large scale (Nyariki, 2009).

The dairy industry mainly focuses on fresh milk or other processed products like yoghurt, butter, powdered milk and ghee (Karanja, 2003). Dairy farming in Kenya dates back to the colonial period. According to Karanja (2003) and Nyariki (2009), the inception of dairy industries can be traced back to the construction of the Mombasa- Kisumu railway line in 1890 that in turn attracted settlers. Later there emerged formalized institutional and organizational framework for milk marketing (Ngigi, 2005) and this led to the formation of Kenya Co-operative Creameries in 1925 (Nyariki, 2009).

Notably, African countries have limited resources that affect progress to industrialization (Siavashan & Khari, 2012). The emergence of many formalized firms has changed the dairy industry (Ngigi, 2005). This was after it was liberalized in 1992 and the monopoly was withdrawn from KCC, the state firm (Ngigi, 2005; Rosemary & Karuti, 2005; Chesire, 2001). In addition, the presence of many unlicensed small-scale milk vendors (SSMVs) is currently a threat to milk production (Young et al., 2006). Nonetheless, the performance of this sector depends on factors like management, state of economy, climate change, among others. In the recent past, the dairy industry in Kenya has faced several challenges; a number relating to strategic management.

After milk liberalization in 1992 (Ngigi, 2005; Muriuki et al., 2003), KCC faced major challenges as other groups of players entered the dairy sector. The groups included small scale traders who moved in to sell raw milk from farmers to consumers. The other group entailed other private processors. This emergence of unlicensed small-scale milk vendors (SSMVs) challenges the dairy industry (Young et al., 2006). This also led to reduction in the market share. The sales in Brookside were also drastically reduced due to supply chain disruptions (Murigi, 2013).

### 1.1 Statement of the problem

Dairy industry plays a key role in the Kenyan economy through revenue generation and food provision to the Kenyan population. The per capita milk consumption in the country is around 72 litres while per capita production is about 82 litres (Abiero & Njeru, 2016). The dairy industry has created employment for a majority of the Kenyan populace (Kamande, 2015). Informal milk outlets are shown to absorb most of the milk from small holder farmers accounting for over 80% of the total milk sold. Brokers, traders/hawkers, transporters, co-operatives and farmer groups are identified as the most important participants at the rural markets. The farm milk prices in informal market are 22% higher than in the formal marketing channel (Abiero & Njeru, 2016).

The dynamics in the dairy industry have become complex due to the increase in the number of industries (Karanja, 2003). This has led to a large product mix and a high level of competition in the dairy industry as there are seven large firms in the industry. It has culminated to collapse of some dairy industries like KCC while others were bought off like Delamere Dairies which was bought off by Brookside Dairies (Abiero & Njeru, 2016). There has over time been a decline in the amount of milk produced from over 58% in early 2000 to the current 30% (Kamande, 2015; Karanja, 2003).

Most of the milk is still being sold in the informal sector as raw milk (Muriuki et al., 2003; Mwangi, 2013).

 

The emergence of milk hawking (Block, 1999), large number of milk bars (Mutave, Lore & Omore, 2004) as well as supermarket dispensers (Janzekovic et al., 2013) has led to low sales of milk by dairy firms. In the absence of appropriate strategies, there has been decreased performance in the firms leading to losses.

This is an indication of a high opportunity of exploitation in this industry by large dairy firms. The performance of these industries is largely dependent on business strategies (Hrebiniak, 2006). A study by Kiptugen (2003), suggests that firms should come up with appropriate strategic approaches to counteract the competitive environment. Most of the previous studies are descriptive in nature while this study also provides an analytical approach to look at relationships between variables. Some previous researches have focused on case studies without a comparison aspect of several firms (Kinyenje, 2013; Mose, 2011; Wambugu, Kirimi & Opiyo, 2011).

A study by Kapto and Njeru (2014), show how cost leadership affected performance in the mobile phone industry, while a study by Chung *et al.* (2012), also show a relationship between cost leadership on performance in the large retail shops. It would be necessary to investigate how cost leadership affects the dairy industry. Thus, there exists minimal information on how generic strategies affect performance of dairy industries. A few studies have focused on assessing several generic strategies. A case study by Chege and Bula (2015) focused on a case study of strategies in one dairy firm KCC and thus need to understand what goes on in other firms. In addition, the influence of generic strategies on performance has not been fully investigated especially in the dairy industry in Kenya. Thus, this study was appropriate as it assessed the influence of generic strategies on performance.

A study by Nyariki (2009), on impacts of policy reforms on the livestock industry in Kenya noted that increased competition adversely affects performance. The poor performance in the formal dairy industry has been attributed to lack of appropriate strategies. A study by Kamundi (2014), on corporate leadership in dairy industry revealed that problems in the formal milk trade led to the emergence of informal milk trade. Interestingly, research has also revealed that performance is affected by strategic practices (Kariuki, 2013).

### 1.2 Research objectives

This study investigated the association between generic strategies (cost leadership, differentiation, cost focus, differentiation focus) on performance of large dairy firms in Kenya.

### 1.3 Research questions

The study aimed to answer the following questions:

a) Does cost leadership strategy relate to performance of large dairy firms in Kenya?
b) Does differentiation strategy relate to performance of large dairy firms in Kenya?
c) Does cost focus strategy relate to performance of large dairy firms in Kenya?
d) Does differentiation focus strategy relate to performance of large dairy firms in Kenya?

### 1.4 Scope of the study

The study targets the senior and middle level management staff from large dairy firms. The study is limited to the cost leadership, differentiation, cost focus, differentiation focus strategies adopted on performance of large dairy firms in Kenya. Except for Githunguri and Meru Co-operative, all the other firms are located in Nairobi.

### 1.5 Significance of the study

The managers as the practitioners in the dairy industries can use this information to understand how various strategies affect performance with a view to improve. The milk consumers are also beneficiaries of the outcome of this study as this information leads to improved service delivery. This information is further useful for policy making within the dairy industry. Upcoming firms can use this information to position their entry. The findings can also be used by other researchers interested in related studies. In addition, the study improves on the existing research information on management of dairy firms. It also forms a knowledge base for future research.

## 2.0: Literature review

This section presents the theoretical review, the empirical review and the conceptual frame work of the study. In addition, the chapter further gives the summary of the empirical review and the research gaps for the study.

### 2.1 Theoretical framework

#### *2.1.1 Michael Porter's generic strategy model*

To address the forces that affect a business, Michael Porter came up with a model that has three generic strategies (Porter, 1980). These are: cost leadership, differentiation, cost focus and differentiation focus strategy. The figure illustrates that the generic strategies; cost leadership, differentiation, cost focus and differentiation focus are key for firms like large dairy firms to achieve a completive advantage in the market.

Porter's generic strategies describe how a firm pursues a competitive advantage across its chosen market

 

scope. The strategies are either to lower cost, differentiate product, develop a cost for a particular segment or develop a unique product for a particular segment. Some researchers recommend the use of a combination of these strategies to increase the chance of firm to achieve a competitive advantage (Hill, 1988; Kim, Nam & Stimpert, 2004).

These generic strategies namely cost leadership, differentiation, cost focus and differentiation focus if applied in a firm would ensure low cost production thus increasing sales. In addition, use of unique products makes them appealing to customers leading to increased sales. Focusing on a given segment with a particular cost or differentiated goods increases sales. All these strategies improve the performance of a firm. It is thus, importance to assess how application of these strategies relate to performance dairy firms.

**(a) Cost Leadership Strategy**

This strategy focuses on gaining competitive advantage by having the lowest cost in the industry (Porter, 1987; Hyatt, 2001). Cost leadership is a cohesive set of actions intended to deliver or produce services or goods with aspects that are acceptable to clients at the lowest cost pertinent to competitors. In cost leadership, a firm aims to exploit all sources of cost advantage and aims at becoming a low cost producer in the industry. The firm undertakes the activities that have cost advantage (Malburg, 2000). This is by taking advantage of economies of scale by production of high volumes of products that can be sold at a cheaper price. Lowering prices attracts more customers, thereby increasing the sales. A firm can achieve a competitive advantage by becoming a market leader through lowering prices. A firm chooses to pursue lower costs than its competitors or by differentiating a product so as to increase on sales (Akan et al., 2006). Cost leadership strategy focus to increasing profits by reducing costs, while charging industry-average prices and by increasing market share through charging lower prices, while still making a reasonable profit.

**(b) Differentiation Strategy**

Differentiation strategy focuses on developing unique products for customers, thus creating brand loyalty (Hlavacka et al., 2001; Porter, 1996). Differentiation is the strategy of producing unique goods or services. Costs are added for value to be added, and the customers are comfortable with paying a premium. It aims to fulfill customer needs and involves tailoring the product or service to the customer. Unique products can be developed through innovations. The level of competition in the dairy industry is high (Karanja, 2003). Hence, dairy firms can enhance their competitive advantage through product differentiation.

**(c) Cost Focus Strategy**

Cost focus means emphasizing cost-minimization within a focused market. Cost focus strategy aims at having a product that is produced at a relatively low cost and made available to a very large customer base. It focuses on having a price for a particular segment which is different from other segments or not targeted by other players in the industry. This depends on the differences in cost behavior. This also calls for a bigger market share or a facilitated access to inputs. The factors that help in the successful implementation of cost focus are: access to capital, close supervision of labour, tight cost control and incentives based on quantitative targets. Dairy industry can use the cost focus strategy to improve on performance by lowering price for a particular segment of customers. A competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost or deliver benefits that exceed those of competing products, thus a competitive advantage enables the firm to create superior profits (Porter, 1980).

**(d) Differentiation Focus Strategy**

Differentiation focus means pursuing strategic differentiation within a focused market. It refers to initiatives where companies focus on a specific market segment such as a particular group of customers, geographic markets or product line segments (Porter, 1980). In essence, differentiation focus relies on the unique needs of a segment. For instance, a firm can narrow its competitive scope by selecting a segment in the industry, making a product for them, to the extreme exclusion of others. Therefore, ddifferentiation strategies focus on a firm's efforts to provide a unique product to ensure customer loyalty.

Likewise, the dairy industry can use the differentiation focus strategy to improve performance by targeting unexploited markets. Innovation differentiation strategies strive to create innovative and attractive products by leading competitors in quality, efficiency and design innovations. Marketing differentiation strategies tend to create a unique image for a product through marketing practices (Parras, 2013). As Tapera and Gororo (2013) suggest, a company must carefully select the way in which it can distinguish itself from competitors to improve performance.

### 2.2 Performance of the dairy firms

The level of competition has been found to affect performance of a firm (Nyariki, 2009). Lack of application of appropriate strategies in the formal dairy industry led to poor performance with the emergence and thriving of informal milk trade (Kamundi, 2014). The reported poor performance had lack of proper application of strategic practices as a major determinant (Kariuki, 2013). Some performance indicators like increased market share, low customer response rate and increased efficiency have been associated with the generic strategies. The

 

organizational performance of a firm is the dependent variable in this study and was measured as market share, customer response rate and efficiency.

**2.2 Conceptual framework**

The conceptual framework presents the independent and dependent variables and their interrelatedness (Figure 2.2). The independent variables are cost leadership, differentiation, cost focus and differentiation focus strategies while the dependent variable is performance of large dairy firms in Kenya.

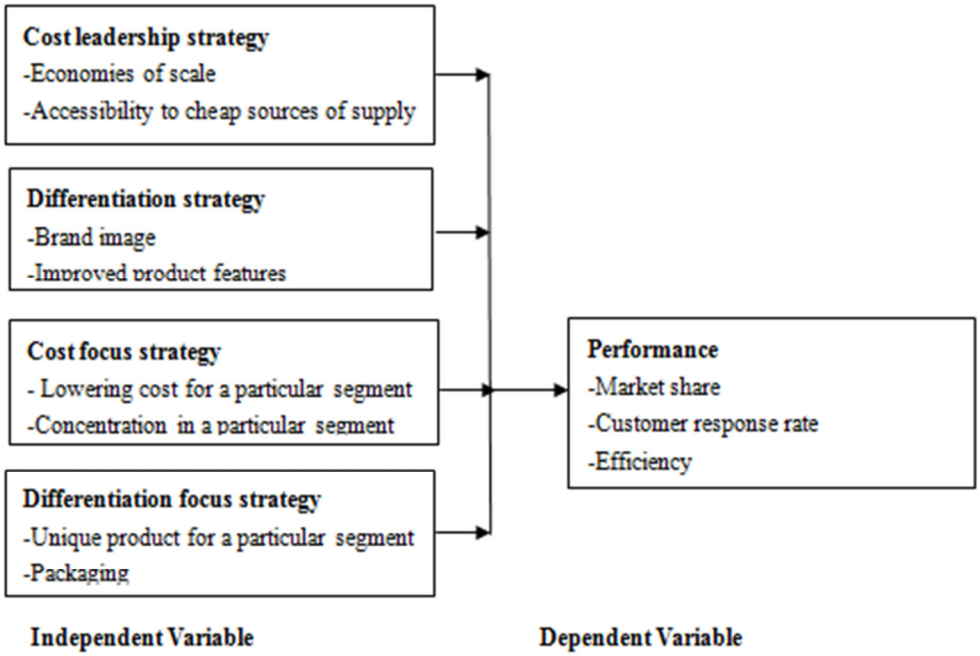


***Figure 2.1: Conceptual framework***

Cost leadership refers to the management of prices by lowering prices to increase the volume of sales. Differentiation is geared towards having unique products that differ from other products in the market. Cost and differentiation focus strategies aims at concentration to a particular segment ensure dominance and high sales. The organizational performance of a firm is the dependent variable and was measured as market share, customer response rate and efficiency.

**2.3 Empirical review**

A study by Chege and Bula (2015) focused on the relationship between generic strategies and the performance of Kenya Cooperative Creameries. A study by Waema (2013) investigated how strategies affect performance. The focus was on the competitive strategies on performance of dairy firms in Kenya but did not focus on generic strategies. It would be necessary to evaluate the relationship of generic on performance of large dairy firms. Another study by Omollo (2008) focused on the extent of application of Porter's generic strategies by the new KCC. Findings of the study indicates that application of Porter's generic strategies enabled KCC to achieve a competitive advantage. This study aimed to relate how generic strategies relate to the performance in several large firms.

***2.3.1 Cost Leadership Strategy***

A study by Kapto and Njeru (2014) show how cost leadership affected performance in the mobile phone industry. A study by Chung *et al.* (2012) also show a relationship between cost leadership on performance in large retail shops. It would be necessary to further investigate how cost leadership affects the dairy industry. A study by Omollo (2008) has shown that obtaining milk at low price helped in reduced cost of production and thus improved performance of Kenya Cooperative Creameries. A study by Chege and Bula (2015), indicate that by selling the products at a low price, the level of sales was increased. These two studies focus on one dairy industry. It would be necessary to compare the application of cost leadership strategy in several large diary firms. To this end, this study focused on a comparison of generic strategies on the performance in several large firms.

***2.3.2 Differentiation Strategy***

According to a study by Yego (2015), product diversification strategies due to growing competition in the hotel industry improved performance. According to a study by Wangure (2012), product differentiation was found to be instrumental in achieving a competitive advantage in microfinance institutions in Kenya. It would be useful

 

also to investigate product differentiation in the dairy industry. Having a unique product at KCC enabled the firm to attract more customers and thus increase on sales (Chege & Bula, 2015). This is also highlighted in a study by Omollo (2008) that differentiation of the milk products enables KCC to achieve a competitive advantage over the other firms. Thus, it would be necessary to compare the application of differentiation strategy in several large diary firms.

***2.2.3 Cost Focus Strategy***

A study by Obwana (2011), among commercial banks in Kenya show that the use of focus strategy contributed to improved performance. It would be useful also to investigate the effect of cost focus strategy in the dairy industry. Although studies by Chege and Bula (2015) and Omollo (2008) show a significant relationship between lowering of costs to a particular segment and sales turnover in KC, it would be necessary to compare the application of cost focus strategy in several large diary firms.

***2.3.4 Differentiation Focus Strategy***

A study by Novitasari (2015), found that innovation was positively influenced by both profits and sales growth. Similarly, a survey in India indicated that a firm is more likely to achieve a higher level of financial performance through product innovation in hostile environments (Wright et al., 2005). Stenholm (2011) also noted a positive relationship between SME innovation and growth rates in sales. In KCC, one of the dairy firms in Kenya, sales were increased by having dairy products differentiated for school and hospitals (Chege & Bula, 2015). It would be necessary to compare the application of differentiation focus strategy in several large diary firms.

## 3.0 Research methodology

### 3.1 Research design

A descriptive and explanatory research design was adopted for this study. It was used to bring out the current case scenario pertaining to the performance of large dairy firms (Bryman, 2007). This design is useful as it brings out the current situation in the dairy sector as well as help in analysing the relationships between the study variables which are generic strategies on performance indicators.

### 3.2 Target population and sampling techniques

This research targeted about 600 senior and middle level management staff from all the large dairy firms in Kenya (Wambugu, Kirimi & Opiyo, 2011). The study targeted senior and middle level staff in the all large dairy firms in Kenya. The fisher formula was used to calculate the sample size (Fisher et al., 1983), cited in Mugenda and Mugenda (2003).

$$N = \frac{Z^2pq}{d^2}$$

n= refers to desired sample size
z= refers to standard deviation at 1.96
p= refers to occurrence level taken as 0.5
q= refers to 1-p
d= refers to significance level

$$n = \frac{1.96^2*0.5*0.5}{0.05^2} = 384$$

The number of senior and middle level management staff in the 7 dairy firms is estimated to be approximately 76 per large dairy firm which make a total of 600 (< 10,000)

Finite sample

$$Nf = \frac{n}{1+n/N}$$

Where Nf = refers to required sample (n> 10,000)
n= refers to required sample (n< 10,000)
N= refers to the population estimate

$$Nf = \frac{384}{1+384/600} = 222$$

A sample of 244 was adopted after adding 10% to cater for case of non-response. Proportion to size was used to allocate the sample of 244 to the seven large dairy firms depending on number of staff. The number of senior managers who responded were 238 out of the 244 targeted making a 97.5% response rate.

Multi-stage sampling was adopted. Purposive sampling was used to select large dairy firms to ensure that no other firm is taken. The selected population was divided into separate strata (senior and middle level staff).

 

From each stratum number of respondents calculated was randomly selected using simple random sampling to ensure that those selected are a representation of the whole population.

### 3.3 Research instrument

An interview schedule was used to collect information on generic strategies on performance indicators from the management staff of dairy firms. The questions that are not quantifiable were formulated in a likert scale form so as to capture the feeling of the people (1= Not at all; 2= To a small extent; 3= To a moderate extent; 4 = To a large extent; 5= To a very great extent). An interview schedule was justified as it ensured that the respondent answered all the questions as intended and the researcher used probing questions where necessary.

The data collection instrument was pre-tested among 5 senior level Managers and 5 middle level managers from one of the large firms. Any modifications was effected as required. The questions were reviewed and any error identified corrected. The pretest sample did not partake in the main study.

This study focused on content validity to assess whether the instruments are able to collect the intended information. This was achieved by subjecting the formulated questions to a panel of business experts from Nairobi, Kenya. This was followed by adjustments and alignments to the objectives. A test-retest method was used to check whether the data collections tools would collect accurate information from all the targeted respondents. This was through collecting the same information from the respondents twice within a fortnight. The questions were checked whether they were fairly consistent with observations and if they meant the same to all respondents. Chronbach's Alpha test Saunders, Lewis and Thornhill (2000) was used where the sample was split into two. This was to test for the level of significance. A coefficient of >7.0, was considered appropriate.

### 4.0 Data analyses and presentation

Data were coded, cleaned and analyzed using SPSS software version 20.0 by use of descriptive statistical and inferential methods. Frequency, percentages and means were used to describe data. Pearson correlation was used to establish the influence of study variables. Further, multiple linear regression analysis was used to determine the extent to which the study variables predict the performance of dairy firms. This was by using a multiple linear regression model which is justified in this case since all the parameters are linear and it reduces the error effect.

$y= \beta_o + \beta x_1 + \beta x_2 + \beta x_3 + \beta x_4 + \varepsilon_0$

y = Organization performance

$\beta_o$ = Intercept value (constant of an equation)

$\beta x_1$ = Cost leadership strategy

$\beta x_2$ = Differentiation strategy

$\beta x_3$ = Cost focus

$\beta x_4$ = Differentiation focus

$\varepsilon_0$ = Error

Significance levels were determined at 95% confidence interval where a P-value of <0.05 was considered significant.

### 4.1 Bio-data

Results show that 61.0% of the respondents were males while 39.0% were females. Distribution by position indicates that the senior management comprises 14.7% Chief Managers, 35.7% Heads of Departments and 49.6% Section Heads.

### 4.2 Influence of cost leadership strategy on performance of large dairy firms

The study assessed the rinfluence of Cost Leadership Strategy on performance of Large Dairy Firms (Table 4.1).

 

***Table 4.1: Influence of cost leadership strategy on performance***

| | | 1 | 2 | 3 | 4 | 5 | mean | SD |
|---|---|---|---|---|---|---|---|---|
| Economies of scale and market share | n | 0 | 10 | 13 | 21 | 194 | 4.68 | 0.76 |
| | % | 0 | 4.2 | 5.5 | 8.8 | 81.5 | | |
| Economies of scale and customer response rate | n | 0 | 13 | 167 | 47 | 11 | 3.24 | 0.62 |
| | % | 0 | 5.5 | 70.2 | 19.7 | 4.6 | | |
| Economies of scale and efficiency | n | 0 | 3 | 13 | 15 | 207 | 4.8 | 0.59 |
| | % | 0 | 1.3 | 5.5 | 6.3 | 87 | | |
| Accessibility to cheap sources of supply and market share | n | 0 | 8 | 11 | 20 | 199 | 4.7 | 0.70 |
| | % | 0 | 3.4 | 4.6 | 8.4 | 83.6 | | |
| Accessibility to cheap sources of supply and customer response rate | n | 0 | 8 | 167 | 48 | 15 | 3.3 | 0.63 |
| | % | | 3.4 | 70.2 | 20.2 | 6.3 | | |
| Accessibility to cheap sources of supply and efficiency | n | 0 | 4 | 7 | 27 | 200 | 4.8 | 0.58 |
| | % | | 1.7 | 2.9 | 11.3 | 84.0 | | |

Table 4.1 shows that 81.5% (194) of the respondents agreed to a very large extent that economies of scale affect the market share (mean = 4.68, SD = 0.76) (). Moreover, 70.2% (167) of the respondents agreed to a moderate extent that economies of scale affect customer response rate (mean = 3.24, SD = 0.62). Also, 87% (207) of the respondents affirmed that economies of scale affect efficiency to a very large extent (mean = 4.8, SD = 0.59).

Furthermore, Table 4.1 shows that 83.6% (199) of the respondents agreed to very large extent that accessibility to cheap sources of supply affects the market share (mean = 4.7, SD = 0.70). Further, 70.2% (167) of the respondents affirmed that accessibility to cheap sources of supply affects customer response rate to a moderate extent (mean = 3.3, SD = 0.58).

Finally, 84.0% (200) the respondents agreed to a moderate extent (mean = 4.8, SD = 0.58) that accessibility to cheap sources of supply affected efficiency. Furthermore, it can thus be deduced that cost leadership significantly affects the performance of a firm. By using the economies of scale and by accessing the supplies at a cheap price, the firms are able to produce more products at a lower price and thus able to sell at a low price. This increases their market share, customer response rate and efficiency. Through this, firms can therefore achieve a competitive advantage.

Similar studies by Omiti *et al*. (2006) and Shah (2012) indicated that the use of economies of scale and on accessibility to cheap sources of supply help firms in achieving low-cost production. This subsequently translates to offering products at lower prices thus improving performance. Thus, the firms were able to maximize on the economies of scale (Mbugua, 2006). Secondly, by applying low-cost supply, the rate of wastage is reduced and ensures that goods are produced at the lowest cost possible. In essence, lower prices lead to an increased volume of sales. This observation is similar to a study conducted by Chang and Horng (2010) by showing that by lowering market prices, the firms increases their sales. Other studies have shown that the use of economies of scale and accessibility to cheap sources of supply help firms to achieve low-cost production, which subsequently translates to offering products at lower prices thus improving performance (Omiti et al., 2006; Shah, 2012).

### 4.3 Influence of differentiation strategy on performance of large dairy firms

Results for the influence of differentiation strategy on performance are as shown in Table 4.2.

***Table 4.2: Influence of differentiation strategy on performance***

| | | 1 | 2 | 3 | 4 | 5 | mean | SD |
|---|---|---|---|---|---|---|---|---|
| Brand image and market share | n | 0 | 23 | 31 | 67 | 117 | 4.12 | 0.99 |
| | % | 0 | 9.7 | 13 | 28.2 | 49.2 | | |
| Brand image and customer response rate | n | 0 | 4 | 33 | 13 | 188 | 4.6 | 0.78 |
| | % | 0 | 1.7 | 13.9 | 5.5 | 79.0 | | |
| Brand image and efficiency | n | 0 | 2 | 211 | 14 | 11 | 2.14 | 0.48 |
| | % | 0 | 0.8 | 88.7 | 5.9 | 4.6 | | |
| Improved product features and market share | n | 0 | 13 | 36 | 170 | 19 | 3.82 | 0.65 |
| | % | 0 | 5.5 | 15.1 | 71.4 | 8.0 | | |
| Improved product features and customer response rate | n | 0 | 11 | 18 | 7 | 202 | 4.68 | 0.81 |
| | % | 0 | 4.6 | 7.6 | 2.9 | 84.9 | | |
| Improved product features and efficiency | n | 1 | 201 | 20 | 15 | 1 | 2.22 | 0.58 |
| | % | 0.4 | 84.5 | 8.4 | 6.3 | 0.4 | | |

As indicated in Table 4.2, the results indicated that a majority {49.2% (117)} of the respondents agreed to a large extent that brand image affects market share (mean = 4.12, SD = 0.99). A high proportion, 79% (188) of the respondents agreed to a large extent that brand image affect customer response rate (mean = 4.6, SD = 0.78).

 

In addition, around 88.7% (211) of the respondents affirmed that brand image affects efficiency to a small extent (mean = 2.14, SD = 0.48). About 71.4% (170) of the respondents agreed to a moderate extent that improved product features affects market share (mean = 3.82, SD = 0.65). Additionally, 84.9% (202) of the respondents stated that improved product features affected customer response rate to a large extent (mean = 4.68, SD = 0.81). Furthermore, approximately 84.5% (201) of the respondents agreed to a small extent (mean=2.22, SD=0.58) that improved product features affected efficiency.

The study therefore concludes that differentiation strategy significantly affects the performance of a firm. By using brand image and improving the product features, the firms are able to produce products that attract customers thus improving the market share, customer response rate and their efficiency. This compares well with a study by Kamau (2013), Grunert and Traill, (2012) and Valipour *et al*. (2012) indicating that adoption of differentiation strategy makes a firm command a higher selling price than the competitors and more particularly when their services are distinctively differentiated. This improves the overall performance of the firm.

### 4.4 Influence of cost focus strategy on performance of large dairy firms

Results on influence of cost focus strategy on performance of large dairy firms are as shown in Table 4.3.

***Table 4.3: Influence of cost focus strategy on performance***

| | | 1 | 2 | 3 | 4 | 5 | mean | SD |
|---|---|---|---|---|---|---|---|---|
| Lowering cost for a particular segment and market share | n | 0 | 7 | 10 | 30 | 191 | 4.7 | 0.69 |
| | % | 0 | 2.9 | 4.2 | 12.6 | 80.3 | | |
| Lowering cost for a particular segment and customer response rate | n | 0 | 7 | 36 | 13 | 182 | 4.56 | 0.85 |
| | % | 0 | 2.9 | 15.1 | 5.5 | 76.5 | | |
| Lowering cost for a particular segment and efficiency | n | 3 | 201 | 20 | 12 | 2 | 2.2 | 0.58 |
| | % | 1.3 | 84.5 | 8.4 | 5 | 0.8 | | |
| Concentration in a particular segment and market share | n | 0 | 12 | 16 | 30 | 180 | 4.59 | 0.83 |
| | % | 0 | 5.0 | 6.7 | 12.6 | 75.6 | | |
| Concentration in a particular segment and customer response rate | n | 0 | 6 | 15 | 7 | 210 | 4.77 | 0.68 |
| | % | 0 | 2.5 | 6.3 | 2.9 | 88.2 | | |
| Concentration in a particular segment and efficiency | n | 14 | 192 | 20 | 11 | 1 | 2.13 | 0.59 |
| | % | 5.9 | 80.7 | 8.4 | 4.6 | 0.4 | | |

Results revealed that 80.3% (191) of the respondents agreed to a very large extent that lowering cost for a particular segment affects market share (mean = 4.7, SD = 0.69). The proportion of the respondents who agreed to a large extent that lowering the cost of a particular segment affect customer response rate was 76.5% (182) (mean = 4.56, SD = 0.85). About 84.5% (201) of the respondents accepted that lowering cost for a particular segment affect efficiency only to a small extent (mean = 2.2, SD = 0.58). Those who agreed to a very large extent that concentration in a particular segment affect market share were around 75.6% (180) of the respondents (mean = 4.59, SD = 0.83), while 88.2% (210) of the respondents affirmed that concentration in a particular segment affect customer response rate to a very large extent (mean = 4.77, SD = 0.68). In regard to whether concentration in a particular segment affects efficiency of the firm, approximately 80.7% (192) (mean = 2.13, SD = 0.59) agreed to a small extent.

By lowering the cost and concentration to a particular segment, the firms are able to increase their sales significantly. This strategy eventually improves their market share, customer response rate and efficiency. A study by Arnold *et al.* (2011), indicates that one can focus on customers not targeted by other firms or target some neglected regions. The purpose of the focus strategy is to narrow the market segment, buyers category and products. Dairy firms are said to constrict their operations to explicit markets. According to Kariuki (2013), these firms can attain a competitive advantage. The focus strategy offers a chance for dairy firms to find and exploit a gap in the market by developing an innovative good that buyers cannot do without.

### 4.5 Influence of differentiation focus strategy on performance

Results on influence of differentiation focus strategy on performance of large dairy firms are as shown in Table 4.4. It was noted that 78.6% (187) of the respondents agreed to a very large extent that unique product for a particular segment affects the market share (mean = 4.6, SD = 0.81). Moreover, 83.2% (198) of the respondents agreed to a very large extent that unique products for a particular segment affects customer response rate (mean = 4.67, SD = 0.78).

 

***Table 4.4: Influence of differentiation focus strategy on performance***

| | | 1 | 2 | 3 | 4 | 5 | mean | SD |
|---|---|---|---|---|---|---|---|---|
| Unique product for a particular segment and market share | n | 0 | 11 | 17 | 23 | 187 | 4.6 | 0.81 |
| | % | 0 | 4.6 | 7.1 | 9.7 | 78.6 | | |
| Unique product for a particular segment and customer response rate | n | 0 | 5 | 30 | 5 | 198 | 4.67 | 0.78 |
| | % | 0 | 2.1 | 12.6 | 2.1 | 83.2 | | |
| Unique product for a particular segment and efficiency | n | 7 | 203 | 20 | 7 | 1 | 2.13 | 0.50 |
| | % | 2.9 | 85.3 | 8.4 | 2.9 | 0.4 | | |
| Packaging and market share | n | 0 | 9 | 14 | 25 | 190 | 4.67 | 0.76 |
| | % | 0 | 3.8 | 5.9 | 10.5 | 79.8 | | |
| Packaging and customer response rate | n | 0 | 6 | 10 | 7 | 215 | 4.8 | 0.62 |
| | % | | 2.5 | 4.2 | 2.9 | 90.3 | | |
| Packaging and efficiency | n | 10 | 184 | 32 | 11 | 1 | 2.2 | 0.60 |
| | % | 4.2 | 77.3 | 13.4 | 4.6 | 0.4 | | |

The highest proportion 85.3% (203) of the respondents additionally agreed that unique product for a particular segment affects efficiency but to a small extent (mean = 2.13, SD = 0.50). Furthermore, a majority {79.8% (190)} of the respondents agreed to a very large extent that packaging affects market share (mean = 4.67, SD = 0.76). Along the same lines, about 90.3% (215) of the respondents affirmed that packaging affects customer response rate to a very large extent (mean = 4.8, SD = 0.0.62). Lastly, around 77.3% (184) of the respondents agreed to a small extent that packaging affects efficiency (mean = 2.2, SD = 0.60).

Use of differentiation focus strategy significantly affects the performance of a firm. By using unique product for a particular segment and packaging, the firms are able to target more customers, thus improving the market share, customer response rate and efficiency. A study by Wright *et al*. (2005) indicates that the use of differentiation focus relate positively with performance.

### 4.6 Performance of the firm

Performance in this study was assessed as the dependent variable to provide a basis for relating it with the independent variables. It was assessed by asking the respondents what they thought was the performance of their firm in terms of market share, customer response rate and efficiency. Results are as shown in Table 4.5.

***Table 4.5: Performance rating***

| | | 1 | 2 | 3 | 4 | 5 | mean | SD |
|---|---|---|---|---|---|---|---|---|
| High market share | n | 0 | 8 | 5 | 18 | 207 | 4.78 | 0.645 |
| | % | 0 | 3.4 | 2.1 | 87.6 | 87.0 | | |
| Low customer response rate | n | 0 | 6 | 11 | 27 | 194 | 4.71 | 0.669 |
| | % | 0 | 2.5 | 4.6 | 11.3 | 81.5 | | |
| Increased efficiency | n | 0 | 6 | 19 | 22 | 191 | 4.67 | 0.730 |
| | % | 0 | 2.5 | 8.0 | 9.2 | 80.3 | | |

Based on the findings, 87.0% (207) of the respondents agreed to a very large extent that they have a high market share (mean = 4.78, SD = 0.645). Similarly, 81.5% (194) of the respondents agreed to a very large extent that they have a low customer response rate (mean = 4.71, SD = 0.669). Around, 80.3% (191) of the respondents reported to a very large extent that they have increased efficiency (mean = 4.67, SD = 0.730). It was thus noted that good performance was attributed to large market share, low customer response rate and increased efficiency.

### 4.6. Correlation between study generic strategies on performance

The study used Pearson Product Moment correlation analysis to assess the influence of the variables. Relationships among the independent variables were also established. Correlation coefficient value ($r$) ranging from 0.10 to 0.29 is considered weak; from 0.30 to 0.49 is considered medium, and from 0.50 to 1.0 is considered strong. To assess the relationships, individual aspects in each strategy were composited to have the particular strategy as one independent variable. Similarly, the three performance variables were composited to have one variable on performance. In this study, there was a medium influence of the assessed strategies on performance ($r$ = 0.048 – 0.81, $p$-value < 0.05) (Table 4.6).

***Table 4.6 Correlation between study variables on performance***

| | r | P value |
|---|---|---|
| Cost leadership strategy | 0.79 | 0.000 |
| Differentiation strategy | 0.74 | 0.000 |
| Cost focus strategy | 0.81 | 0.000 |
| Differentiation focus strategy | 0.79 | 0.000 |

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

 

### 4.7 Coefficient of estimate

This study assed the coefficient of estimate (Table 4.7).

***Table 4.7 Coefficient of estimate and model summary***

| | Unstandardized coefficients | | Standardized coefficients | | |
|---|---|---|---|---|---|
| Variables (with performance) | B | SEM | Beta | t | Sig. |
| Constant | 2.085 | 0.302 | | -6.901 | 0.000 |
| Cost leadership strategy | 0.499 | 0.080 | 0.447 | 6.236 | 0.000 |
| Differentiation strategy | 0.019 | 0.088 | 0.015 | 0.218 | 0.000 |
| Cost focus strategy | 0.108 | 0.132 | 0.084 | 0.820 | 0.000 |
| Differentiation focus strategy | 0.359 | 0.110 | 0.253 | 3.264 | 0.001 |
| | | | | | |
| ***Model summary*** | | | | | |
| R | $R^2$ | Adjusted $R^2$ | SEE | | |
| 0.887 | 0.787 | 0.783 | 0.268 | | |

The results showed that all the five strategies explained 87.2% variation of the performance. This indicates that considering generic strategies, there is a probability of predicting performance by 78.3% (R squared =0.783). The regression equation developed indicates;

$Y=2.085+0.499CL+0.019DS+0.108CF+0.359DF+2.085$ (($R^2$ =0.787; SRMSE =0.268

(*Y) Performance of the firm, (CL) Cost leadership strategy, (DS) differentiation strategy, (CF) cost focus strategy, (DF) differentiation focus strategy*

## 5. Conclusion

In conclusion, cost leadership strategy has a positive significant relationship with performance. This is noted when using economies of scale and accessibility to cheap sources of supply which reduced the cost of production. This reduced cost of production leads to reduced prices and ultimately to improved performances. Notably, the differentiation strategy led to unique products that attracted more to customers and hence more sales and improved performance. This performance was attributed to the branded images and improved product features. The lowering of cost and concentration on a particular segment through cost focus strategy also led to more sales and improved performance. Moreover, the differentiation focus strategy through use of a unique product for a particular segment and unique packaging led to more sales and thus improved performance.

The study has shown that the generic competitive strategies positively and significantly correlate with the performance of dairy firms (Hoskisson et al., 2004). If these strategies are used, dairy firms develop means of attracting clients to opt for their products thus gaining loyalty with regard to repeated sales (Mbugua, 2006). Through that way, they can compete with rival firms who offer similar products. In that regard, the dairy firm acquire a competitive edge in the target market. Additionally, based on the findings of this study, dairy firms should be greatly encouraged to incorporate the focus strategy so as to better their performance (Kariuki, 2013). Dairy firms are also recommended to lower cost of products as a better way of building the loyalty of the customer. Similarly, dairy firms can offer price discounts so as to be competitive in the market, which can go a long way in enhancing their overall performance (Dulo, 2006). In the same breath, most dairy firms could also focus on high potential areas as a way of improving their performance.

The study has revealed that cost leadership strategy affects performance. There is therefore need for firms to focus on economies of scale and to ensure that they access cheap sources of supply so as to produce products at a lower price. Since differentiation strategy has a relationship to improved performance, there is need for firms to use brand image and improved product features so to have products that attract customers more.

Furthermore, firms can lower the cost of goods for a particular segment in addition to concentration on a particular segment in order to increase their sales as cost focus strategy was shown to be critical to performance. Moreover, the firms can focus on the strategy of differentiation through unique product for a particular segment and unique packaging to improve performance. Finally, by having a better transport system and storage facilities, firms can improve on performance as they can produce, store and transport more goods with ease.

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