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EFFECTS OF DIFFERENTIATION STRATEGY ON CUSTOMER LOYALTY AMONG PHARMACEUTICAL COMPANIES IN NAIROBI COUNTY, KENYA

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Abstract:
The competitive global marketplace has compelled organizations to transform themselves in the way they conceptualize and conduct business. Pharmaceutical firms have been forced to think and act as global enterprises as they face the economic, technological, and market challenges of the modern era. It should be noted that some firms tend to see sustainable competitive advantage as the enabler of superior profitability. The study objective was to establish the effect of differentiation strategy on customer loyalty among Pharmaceutical companies in Nairobi County. The research was carried out through descriptive survey design. This design refers to a set of methods and procedures that describe variables. The research targeted 119 pharmaceutical firms in Nairobi County, dealing with manufacturing and distribution of drugs as listed in the Kenya medical directory. The sample size was computed using 30% of the target population which gives a sample size of 35. These 35 were randomly selected from the list of 119 pharmaceutical companies. The study used questionnaires as an instrument of collecting data. From the results, all the measurers of differentiation strategy were found to have effect on the customer loyalty among pharmaceutical firms in Nairobi County. Differentiation strategy had a positive effect on customer loyalty and it was a good indicator that increases in differentiation strategy improves the customer loyalty among pharmaceutical firms in Nairobi County. This meant that there is need to invest resources in differentiating products to effectively attract loyal customers in the pharmaceutical firms in Nairobi County. From the study it recommends that firms using the differentiation should concentrate on investing in and developing such things that are distinguishable and which customers will perceive. In addition, what makes an organization different from a competitor's should be established.

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Keywords: effects, differentiation, strategy, customer loyalty, pharmaceutical companies

1. Introduction

Ellonen (2010) defines competitive advantage as the ability of a firm to out-perform its industry and earn a higher rate of profit than the industry norm, having some sort of "value added" strategy to give you an advantage over the competition. Gaining competitive advantage is the different-and-better strategy. In this approach, a company delivers superior value by performing activities differently or by performing different activities altogether to be sustainable, (Barney, 2013). Competitive advantage must be underpinned by resources and capabilities that are scarce and imperfectly mobile, Scarcity and immobility of critical resources and capabilities are necessary for competitive advantage to be sustainable but they are not sufficient (Besanko, Dranove & Schaefer, 2014). Thompson and Strickland (2002) argue that a company has competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces. Sustainable competitive advantage is born out of core competencies that yield long-term benefit to the company. To succeed in building a sustainable competitive advantage, a firm must try to provide what buyers will, perceive as superior value, (Christensen, 2010).

In today's highly competitive environment, companies need an extra edge to enhance their competitiveness. Many organizations are putting more focus on attracting and retaining customers. The competitive global marketplace has compelled organizations to transform themselves in the way they conceptualize and conduct business. Modern firms must operate within a new business paradigm that has only limited resemblance to the superseded business models (Doz & Hamel, 2008). Pharmaceutical firms have been forced to think and act as global enterprises as they face the economic, technological, and market challenges of the modern era. It should be noted that some firms tend to see sustainable competitive advantage as the enabler of superior profitability, (Christensen, 2010). Barney, (2008) defines competitive advantage as being sustainable if competitors are unable to imitate the source of advantage or if no one conceives of a better offering. In an attempt to answer the perennial strategy question on why some firms perform better than others, Ritala and Ellonen (2010) hold the cause is related to the existence of the sustained superior performance, existence of specifiable causes and these causes are tied to the concept of competitive advantage. Hence, for a firm to have any chance of thriving in today's turbulent and increasingly competitive world, businesses need sustainable competitive advantage and how they get it is a crucial component of management approach. Ritala and Ellonen (2010) describe competitive advantage as the ability of a firm to outperform its industry and earn higher rate of profit than the industry norm.

2. Statement of the Problem

Increased competition exerts pressure on firms to be proactive and to formulate successful strategies that facilitate proactive response to anticipated and actual changes in the environment (Malburg, 2000). According to Porter (2010) competitive strategy is about being different. This means deliberately performing activities differently and in better ways than competitors.

Customer loyalty is developed over a period of time from a consistent record of meeting, and sometimes even exceeding customer expectations. Mayer et al. (2013) claims that the cost of attracting a new customer may be five times the cost of keeping a current customer happy. Customer loyalty is very difficult to be achieved with more and more unique ways being adopted to meet the ever changing nature of the pharmaceutical industry.

In Kenya today, businesses are facing a myriad of challenges that have threatened their competitive positions. It is quite a big task for organizations to meet customer loyalty today. Consumer needs keep on changing everyday thereby making it very hard for organizations to determine how best to please the consumer in order to gain a competitive edge. As observed above, previous studies have given much attention to factors of customer loyalty such as product quality and customer satisfaction in developed economies having different economic reality from Kenya which is a developing economy and therefore the earlier study findings cannot be generalized to the Kenyan firms since none has qualitatively explored the factors relative to Pharmaceutical firms in Kenya. The aim of this study is to reduce this research gap. The study therefore seeks to answer the question; what is the effect of competitive strategies on customer loyalty among pharmaceutical companies in Nairobi County.

2.1 Specific Objective

To establish the effect of differentiation strategy on customer loyalty among Pharmaceutical companies in Nairobi County

2.2 Research Questions

What is the effect of differentiation strategy on customer loyalty among Pharmaceutical companies in Nairobi County?

3. Theoretical Framework

3.1 Resource Based Theory

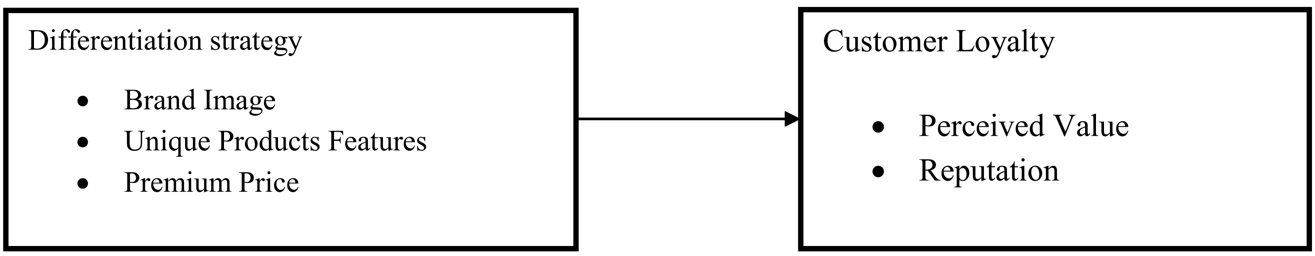
Werner felt (1984), proposed the resource based theory of a firm which is one of the most cited papers in the social sciences. Based on the premise that firms are heterogeneous, the article characterizes sustainable differences (resources), suggests that optimal competitive strategies are based on leveraging excess capacity of these resources, and describes how current resources can be used to develop new ones. This is one of the main theories reviewed. The Resource-Based View (RBV) emphasizes the firm's resources as the fundamental determinants of competitive advantage and performance. It adopts two assumptions in analyzing sources of competitive advantage (Barney, 1991 & Peteraf & Barney, 2003). First, this model assumes that firms within an industry or within a strategic group may be heterogeneous with respect to the bundle of resources that they control. Second, it assumes that resource heterogeneity may persist over time because the resources used to implement firm's strategies are not perfectly mobile across firms since; some of the resources cannot be traded in factor markets and are difficult to accumulate and imitate (Wane felt, 1984).

In case of inimitability, if a valuable resource is controlled by only one firm it could be a source of competitiveness. This advantage could be sustainable if competitors are not able to duplicate this strategic asset perfectly (Peteraf, 1993).

The resource base view as a foundation for the competitive advantage of a firm is rooted primarily in the application of a bunch of valuable tangible or intangible resources at the organization's disposal. Wernerfelt in his 1984 paper titled "A resource based view of the firm" argued that the success of a firm in its product market was a result of its advantages in the factor market and gave a practical approach to the resource-based view, by calling them the 'core competence of the corporation' (Hamel, 1980). They also clarified that to add value to the Finn, resources must be inimitable.

Barney (1991), identified four characteristics of resources that would be required to generate sustainable competitive advantage to firms-resources must be valuable, rare, inimitable and unsubstitutable. Intangible assets use theory of Resource Based Value (RBV). The assumption is that every firm has an aggregate of unique resources and capabilities that become the basis to determine the strategy and the principal source of business in generating returns. The term isolating mechanism was introduced by Rumelt, (1984) to explain why firms might not be able to imitate a resource to the degree that they are able to compete with the firm having the valuable resource. An important underlying factor of inimitability is causal ambiguity, which occurs if the source from which a firm's competitive advantage stems is unknown

Figure 2.1: Conceptual Framework



3.2. Empirical Review

3.2.1 Differentiation strategy

Differentiation strategy is usually developed around many characteristics such as brand image, Unique products features, premium price, product quality, technology and innovativeness, reliability, firm reputation, durability, and customer service, which must be difficult for rivals to imitate, (Johnson et al., 2011). Kuo et al., (2009) suggest that charging a premium price positively influences customer loyalty. Research findings by Chang (2010) indicate that brand image and unique products features play an important role in customer repurchase buying behavior crucial to retain and to preserve existing customer and develop customer loyalty. According to Ogba and Tan (2009), a positive brand image will enable possible high customer loyalty.

This strategy involves uniqueness in doing something that is sufficiently valued by customers to allow a price premium (Johnson et al., 2011). According to Czerniawski and Maloney (2007), brand is more than a product and reflects special relationships with customers. Generally speaking, it is the most powerful tool in order to create a value in the customers‟ mind about a company or product; it directly relates with the symbols that take shape in their minds once hearing the name of the company. In fact, brands are mental associations and that could be either words, images, emotions, or any combination of the three (Adamson, 2006).

The emphasis can be on brand image, proprietary technology, special features, superior service, a strong distributor network or other aspects that might be specific to an industry. When using this strategy, a company focuses its efforts on providing a unique product or service (Hlavackaet al., 2001). Acquiring loyal customers, enhancing the quality of customer relationship, and increasing intensity of customer interactions through product differentiation helps strengthen the relationship between the customer and the business. In terms of innovativeness, product differentiation arguably reduces customers' perceived purchase risks and helps generate more customers who are cooperative and willing to try new products and services. In other words, customers' decision-making in relation to new products and services relies not only on confidence generated from innovation skills, but also on the identity and reputation of the service provider Oliver, (2011).

Product differentiation fulfills a customer need and involves tailoring the product or service to the customer. This allows organizations to charge a premium price to capture market share.

According to Thompson and Strickland (2001), this strategy seeks to differentiate the company's product offering from rivals in ways that will appeal to a broad spectrum of buyers. The differentiation strategy is an integrated set of action designed by a firm to produce or deliver goods or services at an acceptable cost that customers perceive as being different in ways that are important to them. According to Thompson (2007) differentiation strategies becomes an attractive competitive approach whenever buyer's needs and preferences are too diverse to be fully satisfied by a standardized product.

To be successful with a differentiation strategy, accompany has to study buyer's needs and behavior carefully to learn what buyers consider important, what they think has value and what they are willing to pay for. A key step in devising a differentiation strategy is to determine what makes a company different from a competitor's (Rajecki, 2002; Tuminello, 2002). Factors including market sector quality of work, the size of the firm, the image, geographical reach, involvement in client organizations, product, delivery system, and the marketing approach have been suggested as firms differentiators (Davidson, 2001; McCracken, 2002). To be effective, the message of differentiation must reach the clients (McCracken, 2002), as the customer's perceptions of the company are important (Berthoff, 2002; Troy, 2002). When using differentiation, firms must be prepared to add a premium to the cost (Hyatt, 2001).

The differentiation strategy on the other hand, attempts to create a service that is perceived as being unique. This can be accomplished through brand image, technology, customer service, atmosphere or other attractive features. Firms differentiate themselves in several ways: service quality, services cape and product uniqueness. The primary thrust lies in creating customer loyalty, Porter (1980). Past successes with product differentiation have established a customer perception of high quality services. The implication is, therefore, that manufacturing companies that use product differentiation successfully can penetrate markets with new product and service offerings easier than companies lacking sufficient product differentiation (Fornell, 2010).

4. Research Methodology

The study was carried out using descriptive survey design. This design refers to a set of methods and procedures that describe variables. It involves gathering data that describes events and then organizes, tabulates, depicts and describes the data. This survey method specifies the nature of given phenomena and also involves direct contact with a population or sample (Dada & Idowu, 2006). The research targeted 119 pharmaceutical firms in Nairobi County, dealing with manufacturing and distribution of drugs as listed in the Kenya medical directory. The sample size was computed using 30% of the target population which gives a sample size of 35.These 35, were randomly selected from the list of 119 pharmaceutical companies. The study used questionnaires as an instrument of collecting data. The data generated from the administration and adequately filled and retrieved questionnaires was checked, coded and analyzed using the Statistical Package for the Social Sciences (SPSS), so as to obtain descriptive statistics such as frequencies and percentages. The data analysis provided easy, clear and understandable data presentation. Various relationships were discussed using tables, frequencies and percentages since the study was largely descriptive. Finally, the researcher drew conclusions and recommendations from the information obtained from the findings of the study in an attempt to answer the research questions. Inferential statistics was used to determine the effect of the independent variable on the dependent variable. The multiple regression analysis model specification was as follows:

$$\mathbf{Y=\alpha+\beta 1X1 + \varepsilon.}$$

Where:
Y= is the dependent variable, customer loyalty
X1= differentiation strategy
ε= error term
β=coefficient of independent variable.
α= constant
The data was presented by the means of tables, graphs and pie charts.

5. Data Analysis and Presentation

The respondents were required to give information on differentiation strategy on customer loyalty. The table 4.7 shows the responses to this regard.

The researcher tried to establish the effect of differentiation strategies on customer loyalty.

Table 1: Descriptive statistics regarding differentiation strategy

Opinion Statement	Mean	Std Dev
Unique and high added value product features	4.0412	0.9811
We charge premium price for unique products	3.8104	0.9166
We have superior and developed brand name	3.8442	0.9874
We understand unique customer needs and meet them	3.7712	1.0334
Our unique service features provide superior value	2.7994	1.2533
We strive to differentiate such that competitors cannot imitate	3.5812	1.0334
Average	3.6412	1.0342

The results presented in table 4.7 which show on a scale of 1 to 5 (where 1= strongly disagree and strongly agree=5) for the means and standard deviations, a majority of the respondents with the highest mean of 4.0412 indicated that their company has unique and high value added features for their products. The lowest mean of 2.7994 was observed with the respondents agreeing with the statement that through differentiation, their company's unique service features provided superior value for their customers. The highest standard deviation was observed as 1.2533, which showed that there was greater viability in the response that the firms, unique service features provided superior value for their customers. The respondents agreed that they charge a premium price for their unique products (mean 3.8104), that they had superior and developed brand name identification (mean 3.8442), that they understood their unique customer needs and sought to meet them (mean 3.7712) and that they always strived to differentiate their services in such a way that their competitors could not imitate them (mean 3.5812). Thus a majority of the respondents agreed that pharmaceutical companies pursue differentiation strategy as shown in table 4.7 above.

Moreover, the results in table 4.7 show that differentiation influences performance to a great extend but not as much as cost leadership since the average mean of 3.7352 for cost leadership is greater than that of differentiation (3.6412). The findings are in support of the literature by Porter (2008) that in a differentiation strategy, the company must totally understand its customers' needs and preferences, it must be driven to innovate to continually address those wants and needs, and it must build its brand to maintain its position and visibility. The findings also are in agreement with Murage (2008) who analyzed the competitive strategies in the petroleum industry and found that differentiation strategy is used as a method of obtaining customer loyalty.

5.1 Coefficient of Determination

Multiple regression analysis was conducted as to determine the relationship between the customer loyalty of the pharmaceutical companies and the three variables. As per the SPSS generated table below.

The equation

$$\mathbf{Y=\alpha+\beta 1X1 + \varepsilon.}$$

Where:
Y= is the dependent variable, customer loyalty
X1= differentiation strategies
ε= error term
β=coefficient of independent variable.
α= constant
Y= 1.147 + + 0.545X2+e

Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
Differentiation strategy	0.545	0.2178	0.116	3.936	0.0251

The data findings analyzed also show that taking all other independent variables at zero, a unit increase in differentiation strategy will lead to 0.545 increase in loyalty among the pharmaceutical companies in Nairobi County.

6. Summary, Conclusion and Recommendation

From the results, all the measurers of differentiation strategy were found to have effect on the customer loyalty among pharmaceutical firms in Nairobi County as depicted by the various responses from the respondents that were presented using a table where the responses were in percentages, mean and standard deviations. The constructs were found to be of good reliability that allowed the researcher to proceed to the actual data collection. The differentiation strategy variable was found to have a positive and a statistically significant effect on customer loyalty. This meant that increase in differentiation Strategy facilitated the increase in customer loyalty among pharmaceutical firms in Nairobi County.

6.1 Conclusion

In addition, differentiation strategy had a positive effect on customer loyalty and it was a good indicator that increases in differentiation strategy improves the customer loyalty among pharmaceutical firms in Nairobi County.

This meant that there is need to invest resources in differentiating products to effectively attract loyal customers in the pharmaceutical firms in Nairobi County. Thus it is the responsibility of the key players in pharmaceutical industry who should make sure that pharmaceutical products with differentiated features are available in the market place among the pharmaceutical industry.

6.2 Recommendation

From the study, it recommends that firms using the differentiation should concentrate on investing in and developing such things that are distinguishable and which customers will perceive. In addition, what makes an organization different from a competitor's should be established.

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