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The Contribution of Differentiation Strategy Adopted by SMEs to Their Competitive Advantage: A Case Study of Small and Medium Sized Enterprises in Nyahururu, Kenya

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Abstract
There is a tremendous increase in the collapse of the Small and medium sized Enterprises (SMEs) in Nyahururu Town while others struggle to meet growth, profit and productivity. Despite the importance of generic strategies being a determinant of the firm's competitive advantage and thus a firm's success and growth, few empirical researches have been undertaken to justify this in SMEs. Research to date has mainly concentrated in large corporations which are dominant in research work. Research undertaken has established a positive link between generic strategies and competitive advantages of SMEs. This study investigated the Contribution of Differentiation Strategy Adopted by SMEs to Their Competitive Advantage: A Case Study of Small and Medium Sized Enterprises in Nyahururu, Kenya. The study used a survey research design and target population of 985 SMEs while 276 SMEs were sampled out of which 164 responded showing a response rate of 59.42%. The sampling technique was stratified random sampling. To analyze the data, descriptive and correlation analysis was used with the aid of Statistical Package for Social Sciences (SPSS) computer program. The results indicated that differentiation strategies were being adequately used by the SMEs to gain competitive advantage. From the findings of the study owners and managers of SMEs are encouraged to develop ways of differentiating themselves from competition so as to stand out as unique to their clients.
Keywords: small and medium enterprise, strategy, generic strategies

1.0 Introduction

The word strategy comes from the Greek strategos, referring to a military general and combining the words 'stratos' (the army) and (to lead). There are different perspectives on strategy. Differentiation strategy is the ability to provide unique and superior value to the buyer in terms of product quality, special features or after-sales services. In a differentiation strategy, a firm seeks to be unique along some dimensions that are highly valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price. This creates brand loyalty that renders customers less sensitive to price and allows larger profit margins (Miller & Toulouse, 1986). Differentiation can be based on the product itself, the delivery system by which it is sold, the marketing approaches and a broad range of other factors. The marketing approach considered in this study is on competitive pricing and also the provision of goods and services on credit basis.

For a firm to be able to develop a differentiation strategy it is necessary that it has remarkable strengths and advantages in research and development, design, marketing, and quality control, but also an innovative orientation, a technological level superior to the average in the industry (Dess, Lumpkin, & McGee, 2003). These internal requirements cause increased costs especially under the means of product development and marketing campaigns to inform about the products specifications and to promote product tasting. What can sustain this strategy is the continuing development of differentiated products that match customer's needs and preferences along trends, and in order to reach that, a firm must monitor constantly its customers trying to identify their certain product changes.

A firm that can achieve and sustain differentiation will be an above – average performer in its industry if its price premium exceeds the extra costs incurred in being unique (Postma & Zwart, 2001).To be successful, differentiation strategies requires that a firm distinguishes itself from its competitors along a dimension which is valued by customers (Porter, 1985). This is because buyers seldom pay for value they don't perceive, no matter how real the unique features may be. Thus, the price premium a differentiation strategy commands reflects the value actually delivered to the buyer and the value the buyer perceives (even if it is not actually delivered). Beal (2000) distinguishes four different strategies, i.e. innovation differentiation, service differentiation, marketing and quality differentiation. According to Beal (2000), differentiation is a viable strategy for SMEs. They are too small to pursue a cost strategy.

1.1 Theoretical Framework – Resource Based View Theory

This study was based on the Resource Based View Theory (RBV). RBV has been growing in popularity in the strategy literature since the mid- 1980s initiated by Wernerfelt (1984), Rumelt (1987) and Barney (1986). The theory is built on an economics foundation and has proven to be influential and useful structure for the analysis of many strategic issues (Porter, 1985). For strategy formulation, the inside-out perspective originates from the RBV. The RBV addresses the importance of managerial and entrepreneurial capabilities for formulation of a strategy, strategic vision and the success of an organization.

2.0 Research Design

The study employed a survey design. Surveys are used to gather systematically factual information necessary for decision making. It is an efficient method of collecting descriptive data regarding characteristics of a population, current practices, conditions or needs and preliminary information for natural conditions (Saunders, Lewis, & & Thornhill, 2003). The results from the survey were generalized to the larger population from which the sample was drawn since it was logically impossible to study the entire population.

2.1 Population

The Target population in this study consisted of 985 Small and Medium Enterprises in Nyahururu Municipality as at December 2010. The population was segregated into several mutually exclusive sub-populations as follows; general trade, wholesale and retail Stores; informal sector, transport, storage and communications; agriculture, forestry and natural resource; accommodation and catering; professional and technical services; private education, health and entertainment and industrial plants, factories workshops.

2.2 Sampling Procedure and Sample Size

List of registered SMEs provided by Nyahururu Municipal council provided the sampling frame. Stratified random sampling technique was used in selecting respondents. The research applied proportionate stratification that was based on the stratum's share of the total population to come up with the sample in each stratum thus ensuring that each stratum was adequately represented in the sample. The sample size formula was calculated using the formula:

$S= \{(z)^2(p)\ (q)\}\div d$

Where's' sample size, 'z' = Value of selected alpha. In this study 0.25 in each tail z = 1.96, 'd' = acceptable margin of error for proportion being estimated = 0.05 and (p)(q) = estimate of variance = 0.25 maximum possible proportion (0.5) (1 - 0.5). This produced maximum possible sample size.

$S= \{(1.96)^2(0.5)(0.5)\} \div (0.05) = 384$

Cochran's correction formula was used to calculate the final sample size.

$S_1=S \div \{(1+(S \div n)\}$

Where; S_1 = required sample size, S = uncorrected sample and n= total target population.

$S= 384 \div \{ 1 + (384\div985)\} = 276$

The actual businesses to be given questionnaires were arrived at by using simple random procedures to draw the sample from each stratum. The sample size was 276 as shown in Appendix I.

2.3 Research Instruments

A questionnaire was used to collect primary data (Appendix I). A questionnaire was easy to administer, it gave the respondents sufficient time to arrive at a well thought response and were free from the researcher's bias. Kothari (2004) consider the method as being very useful in extensive inquiries and can lead to reliable results despite being expensive.

2.4 Instrument Validity and Reliability

The research instruments were subjected to a pilot study in Rumuruti Town of Laikipia County The pilot study determined whether the research instrument had validity, were reliable, were clearly stated and had the same meaning to all respondents.

2.5 Data Collection Technique

The data required for this research was both quantitative and qualitative. The primary data was collected by use of a structured questionnaire while secondary data was obtained from publications, newspaper and the internet availed by the Nyahururu Municipal Council.

2.6 Data Analysis and Presentations

Inferential and descriptive statistics were used to analyze data after appropriate coding. Data analysis was done using SPSS. The study presented summarized results in tables, pie charts and graphs. Descriptive statistics such as percentages and frequencies were used where appropriate to ease comprehension of the study.

3.0 Results and Discussion

3.1 Differentiation Strategy

This related to product pricing, credit facilities and the installment purchase and customer's view of the business and their effects on business' competitive advantage.

Product Pricing among Business Organizations

Findings from the study (see table in appendix 2) revealed that majority (76%) of the business operators sold products at a cheap price. Out of the 164 respondents twenty three percent revealed that their products are priced the same as those of their competitors. Majority (76%) of the respondents claimed that they sold their product cheaply so that they could retain the existing customers and also attract more to their businesses. Furthermore 23% of respondents claimed that their products were sold at an expensive price because they provided high quality products to their customers hence attracting a premium to their prices. In both cases, businesses maintained customer loyalty as there were customers whose preference was quality and fewer were sensitive to prices. Customers who bought products cheaply were price sensitive and therefore maintained their loyalty to the businesses which sold products cheaply.

Table 1: Product pricing among business organizations

Price Description	Frequency	Percent
Most expensive	2	1.2
Expensive	36	22.0
Cheap	108	65.9
Cheapest	16	9.8
Same	2	1.2
Total	164	100.0

Source: Research Data (2011)

Effect of product pricing on Business Competitiveness

Product pricing has an impact on the competitiveness of the business. Figure 1 indicates that majority (65%) of the respondents revealed that the pricing of their product increased their competitiveness in the market place. In addition, 14% of the respondents reported that their pricing reduced their competitive advantage in the market place while twenty one percent reported that pricing of products did not have any effect on their competitiveness.

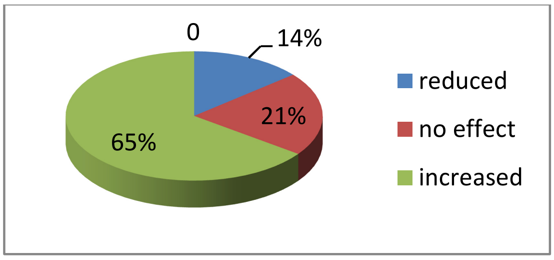

Figure 1: Effect of Product Pricing On Business Competitiveness

Source: Research Data (2011)

Existence of Credit Facilities in Business Organizations

Provision of credit facilities is a strategy used by most businesses to differentiate themselves from the competitors and also to increase their sales volume. Businesses sold on credit only to the trustworthy customers in anticipation that they would pay for the products at the agreed time. Credit facilities could also be offered in terms of hire purchase where deposit for products was paid first and then installments were paid at a later date. Figure 2 below shows the existence of credit facilities in business organizations. Majority (68%) of the respondents provided credit facilities to their customers and 32% of the respondents did not extend facilities to their customers.

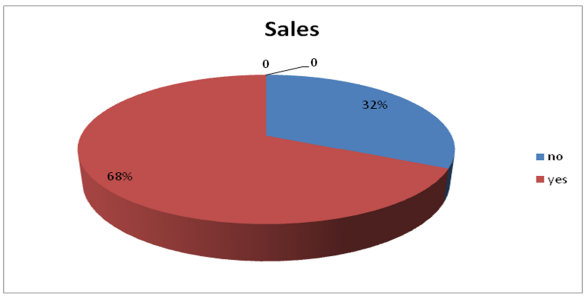

Figure 2: Existence of Credit facilities in business organization

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Source: Research Data (2011)

Effect of Credit Facilities on Business Competitiveness

The findings on Table 2 below indicated that majority (40.2%) of the respondents revealed that offering credit facilities to their customers increased their competitive advantage in the market place while (18.3%) indicated that credit facilities to the business' reduced competitiveness.

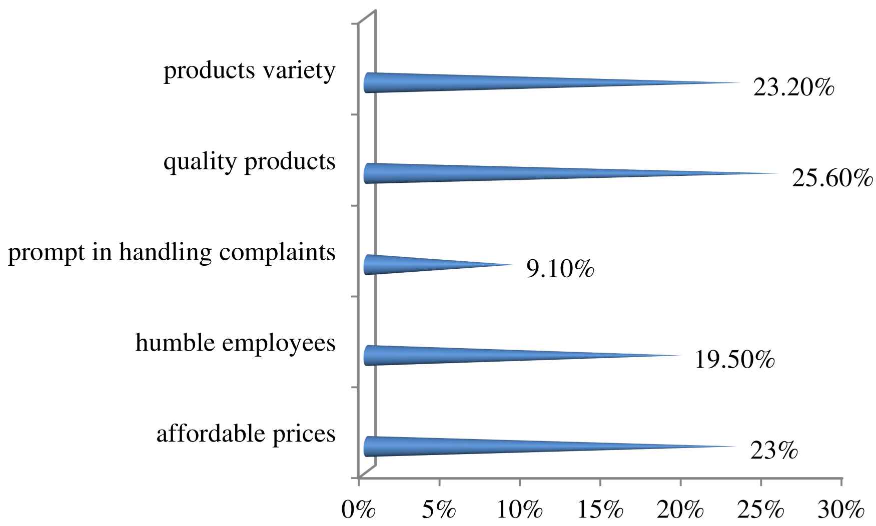
Table 2: Effect of Credit Facilities on Business Competitiveness

Effect on Competitiveness	Frequency	Percent
Increased	66	40.2
Reduced	30	18.3
No effect	28	17.1
Total	124	75.6
Missing System	40	24.4
Total	164	100.0

Source: Research Data (2011)

Customers Best View of Organization

Customers' best view of the organization was important as it captured the reason why a customer was loyal to a business. The customers' best view comes from the customers' perception on the manner in which services and goods are offered. The study analyzed the following as ways in which the SMEs could distinguish themselves among the competitors; provision of a variety of products, provision of quality products, prompt in handling complaints, having humble employees and offering products at affordable prices. The findings of the study presented in Figure 3 shows that 25.6% of the respondents had their customers' view of the business as providing quality products; this was closely followed by provision of a variety of products and affordable prices at around 23% percent each. Businesses' having humble employees was at 19.5%. The least customers' best view of the organization according to the respondents was promptness in handling customer complaints which was at 9%.



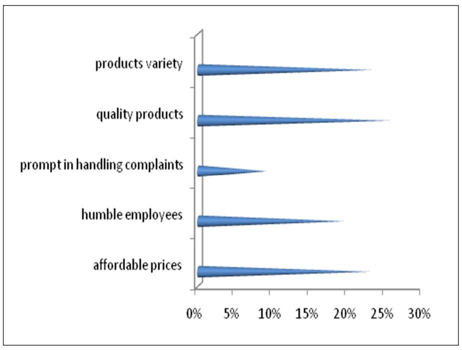


Figure 3: Customers Best View of Organization

Source : Research Data(2011)

Greatest Threat to Business

Competition being at the core of the success or failure of firms, the study determined the appropriateness of a firm's activities that could contribute to its performance. Out of the 164 respondents 31.1% mentioned that competition was the greatest challenge their businesses faced, which in turn affected their performance in the market place. The threat that followed was inflation, which was a persistent increase in general level of prices of products as well as services and this was at 21%. This was closely followed by the threat of high cost of inputs which was 17.7%. The cost of inputs (a variable cost) in the short run affected the performance of the business and directly influenced the production of goods or provision of services. The other threat cited from the study findings (figure 4) were power blackouts, exposure to hazards, defective goods, scarcity of essential inputs and council harassment which were insignificant as they were less than ten percent.

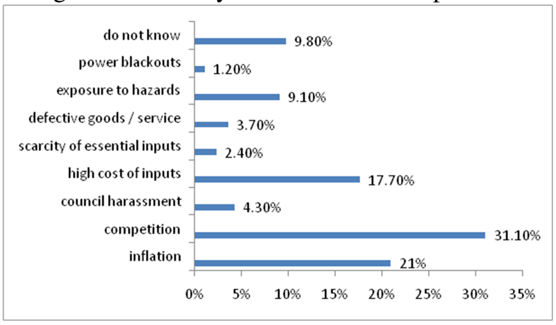


Figure 4: Customers Best View of Organization

Source: Research Data (2011)

Greatest Strength / Opportunity to Business

Majority (51.2%) of the respondents indicated that their businesses greatest strength was loyalty of the customers. The other strengths of the businesses as the findings of the current study indicated were committed staff and business location which comprised of about (9.1%) and eleven percent respectively. Table 3 also indicates that about twenty nine percent of the respondents did not know the strengths of their businesses.

Table 3: Greatest strength / opportunity to business

Business Strength	Frequency	Percent
Loyal Customers	84	512
Committed Staff	15	9.1
Business Location	18	11.0
Do not know	47	28.7
Total	164	100.0

Source: Research Data (2011)

3.2Discussion

Contribution of differentiation strategy on competitive Advantage

The study sought to analyze how differentiation strategy adopted by SMEs contributed to their competitive advantage. It revealed that there is significant association between product pricing and competitive advantage of the organization (Table 1). This meant that the performance of an organization was greatly influence by the pricing of its products. The findings of this study was similar to those of Namiki (1989) who following an empirical study implicitly using Porter's (1980) generic strategies, concluded that exporting SMEs generally adopt four types of competitive strategies namely; marketing differentiation, segmentation differentiation, innovation differentiation and products service to attain competitive advantage in the market place. Among the four types of competitive strategies was the market differentiation which was based on competitive product pricing, control over distribution, advertising and innovation in terms of market techniques (Namiki, 1989).

Association between product pricing and competitive advantage

Customers' best view of the business

First, the findings of the study indicated that the most frequently used business strategies for SMEs in all industries were providing a broad range of products and services, competitive pricing, product quality, having humble employees and maintaining prompt response to customers' order (Figure 1). The study's findings were consistent with the other research findings; Quality is an important choice in helping SMEs gain competitive advantage. Indeed, as the propagation of ISO 900 illustrates, the quality movement was one of the central trends among SMEs in Europe (Van der Wiele & Brown, 1998, Sun & Cheng, 2002).

Secondly, the study did also identify the business strategies used by SMEs that enhanced higher performance in the market place. The top two dimensions of business strategies used by SMEs that gave good impression on their performances were (1) product differentiation (product quality) and (2) marketing differentiation (competitive product pricing). The findings of the current study was largely consistent with the findings of the study by Mahajar and Yunus (2012) which found out that the most frequently used business strategies for SMEs exporters to gain competitive advantage in all industries were providing a broad range of products and services, competitive pricing, product quality, maintaining prompt response to customers order and use of advanced communication technologies (Mahajar & Yunus, 2012).

Analysis of focus strategy adopted by SMEs and competitive advantage

The study sought to analyze how focus strategy adopted by SMEs contributed to their competitive advantage. The findings showed that most of the SMEs did not serve a niche market but focused on the broad market.

3.3 Conclusion

With regard to the product pricing and credit facilities the study showed that there was a significant relationship with the competitiveness of the SME. The study revealed that differentiation strategy is the strategy most employed by the SMEs. Some of the factors of differentiation strategy also indicated positive relationship with competitive advantage. The business owners and managers of the SMEs are thus encouraged to look for serious ways of differentiating themselves in the market. This will enable them stay ahead of competition.

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