

DETERMINANTS OF MARKET GROWTH IN THE KENYAN FLORICULTURE SECTOR: ANALYSIS OF STRATEGIC PRACTICES AT SIAN ROSES – KENYA

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Abstract

The survival of firms in the modern dynamic competitive environment brought about by globalization has posed a threat to established firms. Flower firms in Kenya face the same global competitive challenges, and the key to success is for management of such organizations to effectively utilize their available resources and expand their market base the study sought to investigate how product differentiation, price skimming, market orientation and customer segmentation influenced market growth. Data was collected from 220 out of the targeted population of 400 spread in various department and was analyzed using descriptive statistics and regression model to establish the relationship of the independent and depend variables. Findings show that market growth in the floriculture sector can be achieved by mostly engaging in product differentiation and market orientation practices. These had coefficients of determination of .528 and .581 respectively. The paper concludes that in order to grow the market for the floriculture sector there is need to engage more in market orientation strategies and product differentiation since they have reasonably higher contributory power. Further research can be conducted involving more firms to show the best practices to attain market growth.

Keywords: Market growth, Floriculture, Determinants, Strategic practices

1.0 Introduction

The structure of the Kenyan flower industry is characterized by an increasing tendency towards large scale flower operations. There are approximately 500 flower farms in Kenya but more than 60 percent of exports are attributable to only two dozen large scale producers (Smith *et al*, 2014). The cut flower industry provides direct employment to an estimated 100,000 Kenyans with a further 2 million employed in related industries. The fact that these opportunities in employment are in the rural areas is very important, as it not only stems rural urban migration but also contributes to poverty alleviation.

Floriculture is today the fastest-growing sector of the Kenyan economy and is after tea the second largest source of foreign exchange generating more than \$250 million a year (DFID, 2017). The main types of flowers cultivated for export are roses, statice, alstroemeria and carnations (KFC, 2010). The overwhelming majority of Kenyan flower exports are destined for the European Union with the Netherlands as the most important market followed by the UK and Germany (Hale & Opondo, 2015).

The economic success of the Kenyan flower industry can be attributed to several factors. Bolo (2016) classifies the industry's key success factors into climatic, contextual, policy and infrastructural factors. The climatic conditions in Kenya are ideal

for floriculture and its location on the equator allows for year round production. The contextual success factors include the availability of agricultural land, fresh water and an unlimited supply of cheap labor. The policy factor is mainly characterized by the Kenyan government's non-interference in the industry.

1.1.Sian Roses

Sian Roses is one of the leading Kenyan producers of high quality flowers in East Africa. Sian Roses began growing cut flowers in 1991, a time when horticulture exports in Kenya started to grow dramatically. Sian Roses is the trade name of the group, which has three rose growing farms on a total of 100 hectares, as well as top graft propagation units. The group of flower farms, all located in Kenya, produce a wide variety of cut flowers, both roses and calla lilies of the highest quality. The farms include, Agriflora farm in Nakuru, Maasai farm in Kitengela, and Equator flowers also in Eldoret.

Currently, the farms produce a total of 120 million roses every year and have a total of 2,000 employees in different capacities. Sian Roses specializes in a wide variety of roses and calla lilies for export to the premium market segment. Sian Roses sells flowers both to the Dutch Flower Auctions as well as directly to customers such as supermarkets and wholesalers. The firm's main markets are in the EU (Sweden, UK, Holland, Germany, France and Italy), USA, Dubai and Australia, Russia and Ukraine.

As Sian Roses has grown and expanded, its work force has become more diverse. The firm believes that this diverse work force helps the company realize its full potential. A well-managed, diverse work force has expanded the firm's base of knowledge, skills and cross-cultural understanding, which in turn, has enabled it to understand, relate and respond to diverse and changing customers throughout the world.

This diverse, high achieving workforce has given the firm the sustainable competitive advantage that is essential to win in the marketplaces, workplaces and communities where the firm operates in. This is what is driving invention and high performance at Sian Roses which has resulted in the firm's recognition as one of the leading flower exporter in Kenya.

1.2. Statement of the Problem and Scope

Hypercompetitive business environment has pushed organizations to limits dictating the need to adopt strategic management practices that support plans, choices and decisions that lead to competitive advantage and to archive sustainability, profitability, success and wealth creation (Kourdi, 2015). There is need to operate with set goals and objectives and therefore having strategies in place is paramount to the industry to ensure sustainability and efficiency in order to remain relevant in the market.

According to Porter (2011) strategic management addresses the question of why some organizations succeed, others fail and it covers the causes for company's success or failure. The organization must aim at providing satisfaction to customers if it hopes to stay afloat the tide of globalization in technology innovations, competitiveness and customer demands. Effective marketing practices have been noted to improve organizational performance (Jamieson, 2011).

Market growth is at the heart of firm performance and hence firms need to put measures in place to innovate and come up with strategies that will not only ensure market growth, but also promote sustainability of business. This paper analysis the strategic practices at Sian Roses in Kenya to learn from their best practices.

The following research questions guide the paper:

- i. What is the relationship between product differentiation practices and market growth at Sian Roses limited?

- ii. What is the relationship between price skimming practices and market growth at Sian Roses limited?
- iii. What is the relationship between market orientation practices and market growth at Sian Roses limited?
- iv. What is the relationship between Customer segmentation practices and market growth at Sian Roses limited?

2.0. Literature Review and Theoretical Orientations

Literature abound on market growth and strategic practices. For example Kelly (2015) carried out a research on the successful growth of the floriculture industry. Kelly noted that firms that successfully differentiated their products according to market needs were the market leaders in the segments that they had targeted. Kelly averred that the leading flower firms in Asia used product differentiation in order to attract and retain new customers. She argued the product differentiation helped differentiate their products from other major horticulture firms. Pearce & Robinson (2011) argue that differentiation strategy seeks to build competitive advantage with its product or service by having it different from other available competitive products based on features, performance or other factors not directly related to cost and price.

Price skimming involves charging a relatively high price for a short time where a new, innovative or much-improved product is launched onto a market. The objective with skimming is to skim off customers who are willing to pay more for having the product sooner; prices are lowered later when demand from the early adopters falls (Huimin & Hernandez, 2014). The success of a price-skimming strategy is largely dependent on the inelasticity of demand for the product either by the market as a whole or by certain market segment.

A pricing strategy is utilized while bearing in mind the goal of setting up the best possible price, which

in the long run should contribute to a high profit margin. High prices can be enjoyed in the short term where demand is relatively inelastic.

Flower firms use price skimming when introducing different products as well as in new markets. For example, Aurley (2016) in a study of horticulture firms in Asia noted that product skimming was a strategy consistently used by most of the firms in Asia. Kimberly (2015) in her study observed that firms in the horticulture industry employed price skimming. She also concurs that, this strategy has found wide acceptance in the Asian flower firm.

Market orientation is the organization culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and thus ensures continuous superior performance for the business (Aaker, 2015). Peters & Wateman (2012) argued that a market oriented seller understands that, through the numerous means of creating additional benefits for buyers as well as the numerous types of reductions in buyers' total acquisition and use costs, there are many potential sources of sustainable competitive advantage. Accordingly, market-oriented seller decides how best to share with its buyers the superior value it creates for them (Forbis & Mehta, 2015).

Customers are depicted as important strategic resources of an enterprise. Gaining and retention of customers has become the most critical factor of an enterprise's success (Lai, 2012). By gaining an overall understanding of them and grouping the clients into categories, companies are able to better optimize marketing programs, satisfy customers and increase profits (Chen & Li, 2012). Hence, for a company facing competitive environment, achieving efficient customer segmentation for applying high quality recommendation strategies is a key objective.

Market growth could be argued as the increase in profitability, sales, market share or customer base. This can be attributed to reduced competition,

targeting and focusing on new markets as well as diversifying the product offer. This paper conceptualizes market growth as evidenced by; increased customers, sales and more loyal and satisfied customers.

2.1. Theoretic Review

This paper is founded on the following theories which help explain the core concepts under discussion. These are; product differentiation, price skimming, market orientation, customer segmentation and market growth.

2.1.1. Discrete Choice Theory of Product Differentiation

The discrete choice approach is founded in econometric and probabilistic models of consumer behavior. Each individual has an idiosyncratic taste for each product. Aggregating individual choices yields the demand function and aggregating the surpluses yields the welfare function. According to Anderson, *et al* (2012) product differentiation in quality, packaging, design, color, and style has an important impact on consumer choice. The fact that customers make choices based on their preferences is a pointer to why marketers need to understand the factors that influence these behavioural choices. This is the underlying notion of the discrete choice theory since it supports the need to understand customers' choices and twist them to the advantage of the concerned firm.

2.1.2. Resource Based Theory

The resource-based view (RBV) of the firm argues that competitive advantage and subsequently performance depends on historically developed resource endowments (Wernerfelt, 1984). Consequently, firms particularly in marketing, should build on resources that contribute to their ability to produce valuable, rare, imperfectly imitable and non-substitutable market offerings in a manner that is either efficient or effective (Hooley, Fahy & Cadogan, 2011).

As Fahy & Smithee (2011) argued, intangible resources and capabilities such as organizational learning and customer knowledge are especially difficult to duplicate and thus, provide a meaningful basis for marketing strategy and market position development (Santos *et al*, 2015). As such, intangible resources and capabilities have the potential to become distinctive competencies for the firm (Blois & Ramirez, 2016).

3.0. Methodology and Design

This paper is based on research evidence conducted at Sian Roses in Kenya using a target population of 400 respondents and a sample of 220. The response rate of 176 (80%) was attained. The descriptive design was followed. Structured questionnaires on a 5 point likert scale was used. Data was analyzed using descriptive and inferential statistics with the help of SPSS version 23 computer software. A regression model was run to explain the relationship between variables.

4.0. Findings, Discussions, and Recommendations

The findings show that market growth can be achieved by investing in price skimming, product differentiation market orientation and customer segmentation. This section gives these findings in details as analyzed using various methods.

4.1.1. Product Differentiation and Market Growth

The study sought to determine the relationship between product differentiation and market growth. The variable was tested using a five point Likert scale of 1-5 where 1 – Very low (1-1.4), 2 – low (1.5-2.4), 3 – moderate (2.5-3.4), 4 – high (3.5-4.4) and 5 – very high (4.4-5). Mean scores were obtained which were therefore used as an index for product differentiation association with market growth.

The results in Table 1 shows that majority of the respondents strongly agreed that Sian Roses products are attuned to customer specification and

needs as shown by a mean score of 4.4. The respondents strongly agreed that Sian Roses emphasizes on quality and conformance as shown by a mean score of 4.5. Majority of the respondents were of moderate opinion on whether Sian Roses classifies and sells its products into different market segments depending on consumer needs as shown by a mean score of 2.9. This means that Sian Roses may not be practicing product differentiation as per the needs of customers on a large scale. They may be selling the same product to the same market segment as long as it meets their target outcome of product. This may be at their disadvantage at the long run in their quest to grow the market. Further the fact that the other variables had high mean scores and moderate standard deviations shows that there was consensus on these views and hence reliable. Conforming to quality and adhering to customer specification is important since flowers are personal items that must appeal to the needs of the buyer. Sian Roses does this well as shown by the findings.

Table 1: Descriptive Analysis for Product differentiation

Product differentiation Aspects	Mean	Std Dev
Sian Roses products are attuned to customers satisfaction and needs	4.4	0.691
Sian Roses emphasis on quality and conformance	4.5	0.76
Sian Roses classifies and sells its products into different market segments depending on customers' needs	2.9	0.54
Average Mean	3.9	

4.1.2. Price skimming and Market Growth

The study sought to establish the relationship between price skimming and market growth at Sian Roses limited. A five point Likert scale of 1-5 where 1 – very low, 2 - low, 3 - moderate, 4 - high and 5 – very high was used to measure the extent of occurrence. From the findings, majority of the respondents agreed that Sian Roses uses price skimming strategy in all markets, as supported by a mean score of 4.09, the respondents rated the aspect

of price skimming consistently in the launch of every new product in different markets lowly as show by mean score of 2.4. Finally, the respondents agreed that Price skimming has led to cost recovery at Sian Rose as shown by a mean score of 4.4. These findings agrees with Kimberly (2015) who in her study observed that firms in the horticulture industry employed price skimming. She averred that when the products are new in the market firms set high prices in order to milk from early buyers and subsequently they lowered the prices to capture other market segments. She noted that Asian flower firms employed this strategy mostly. However for price skimming to be beneficial to the firm it has to be used consistently a situation that is not seen from the findings of Sian Roses. Table 2 below gives the findings. The moderate mean score also indicates that there was low consensus as to whether price skimming was used in many cases to grow the market.

Table 2: Descriptive Analysis for Price Skimming

Price Skimming Constructs	Mean	Std dev
Sian Roses uses price skimming strategy in all market always.	4.09	0.72
Sian Roses uses price skimming consistently in the launch of every new product in different markets.	2.4	1.19
Price skimming has led to cost recovery at Sian Roses.	4.4	0.61
Average mean	3.63	

4.1.3. Market Orientation and Market Growth

The results in table 3 shows that majority of the respondents agreed that Sian Roses uses market intelligence pertaining to the current and the future customer needs as shown by a mean score of 4.1. The respondents also agreed that Sian Roses anticipates and plans the market requirements accordingly as shown by a mean of 3.9. Also the respondents agreed that Sian Roses anticipates customers' needs and satisfies them more effectively than their competitors as shown by a

mean score of 3.5. However the moderate means show that this variable was not rated highly by most of the respondents. Being conscious about the market a firm is operating in is essential to attain growth.

Table 3: Descriptive Analysis for market orientation

Market orientation Constructs	Mean	Std Dev
Sian Roses anticipates and plans the market requirements accordingly.	3.9	0.69
Sian Roses anticipates customers' needs and satisfies them more effectively than their competitors	3.5	1.05
Sian Roses uses market intelligence pertaining to the current and the future customer needs	4.1	0.68
Average Mean	3.83	

4.1.4. Customer segmentation and Market Growth

The results in Table 4 shows that the respondents strongly agreed that Sian Roses uses a combination of many factors to segment its markets as shown by a mean score of 4.3. The respondents also agreed that Sian Roses segments its customers according to geographical locations as shown by a mean score of 3.3 There was strong disagreement to the statement that Sian Roses segments its customers according to demographic characteristics (age, gender, education and occupation etc.) as shown by a mean of 1.7. There was a moderate response to the statement that Sian Roses segments its customers according to product quality as evidenced by a mean of 3.6. The overall mean scores shows that market segmentation at Sian Roses may be wanting if it has to lead to meaningful market growth. Strangely segmenting markets according to demographic factors seems low or not practical in this case.

Table 4: Descriptive Analysis for Customer segmentation

Customer segmentation Constructs	Mean	Std Dev
Sian Roses segments its customers according to demographic characteristics. (Age, gender, education and occupation etc.).	1.7	0.71
Sian Roses segments its customers according to product quality.	3.6	0.95
Sian Roses segments its customers according to geographical locations.	3.3	1.35
Sian Roses use a combination of many factors to segment its markets.	4.3	0.67
Average Mean	3.23	

4.1.5. Market Growth at Sian Roses

The findings indicate that Sian Roses Ltd grew their market share over 30% as shown by a mean score of 4.4, customer satisfaction and loyalty was over 40% as shown by a mean score of 4.5 while entry to new markets was at 20-29% as shown by a mean score of 2.9. This implied that the market share of Sian Roses Ltd was increasing in the last five years. The market share growth can be attributed to the company's focus strategy on customers which has resulted to the improvements. Also customer satisfaction and loyalty of the customer has been on the increase in the past five years. Sian Roses Ltd has focused on customer requirements and by identifying the needs of customer both in the present and in the future has led to growth in customer satisfaction and loyalty in the past five years. Lastly entry in the market has been on the decline and this could have resulted to the factor that Sian customer focus strategy is not aiming for new markets.

Table 5: Market growth

Market growth	Mean	Std Dev
Market Share	4.4	0.691
Customer satisfaction and loyalty	4.5	0.66
Entry into new markets	2.9	0.54
Average Mean	3.93	

4.2. Regression Analysis

This section gives the results of the regression analysis which shows whether the variables under investigation had a relationship with the attained market growth at Sian Roses.

Table 6: Regression Analysis Results

	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
(Constant)	2.447	0.815		3.002	0.004
Customer segmentation	0.177	0.094	0.159	1.893	0.062
Product differentiation	0.528	0.132	0.363	4.001	0.000
Market orientation	0.581	0.114	0.452	5.082	0.000
Price skimming	0.436	0.139	0.276	3.129	0.002

The Unstandardized beta coefficients column in Table 6 were used to obtain the overall equation of the determinants of market growth at Sian Roses. When these beta coefficients are substituted in the equation, the model becomes:

$$Y = 2.447 + 0.177X_1 + 0.528X_2 + 0.581X_3 + 0.436X_4$$

where

Y = market growth, X₁ = customer segmentation, X₂ = Product differentiation, X₃ = Market orientation, X₄ = price skimming.

4.3. Discussion of the Findings

According to the study customer specification and needs, providing quality conformance and product classification into the market influence the market

growth. This is measured by the number of customers. The findings concur with Anderson, *et al* (2012) product differentiation in quality, packaging, design, color, and style has an important impact on consumer choice.

The study showed that price skimming influences the market growth. Sian Roses used price skimming strategy in all market ways and also used price skimming to recover costs. The findings of the study agree with Kimberly (2015) in her study who observed that firms in the horticulture industry employed price skimming. She averred that when the products are new in the market firms set high prices in order to milk from early buyers and subsequently they lowered the prices to capture other market segments.

The study found that market orientation influences the market growth. From the findings, it was revealed that planning and anticipation, customer needs and market intelligence improved the market growth. This finding concurs with Aaker, (2015) that market orientation creates the necessary behaviours' for the creation of superior value for buyers and thus continuous superior performance for the business.

Lastly the study found that customer segmentation had an influence on market growth. The findings revealed that Sian Roses segments its customers according to demographic characteristics to a low extent, Also Sian Roses to a moderate extent segments its customers according to product quality, Sian Roses to a moderate extent segmented its customers according to geographical location and lastly to high extent Sian Roses used a combination of many factors to segment its markets. The study agrees with Lai, (2017) customer segmentation can effectively lower the marketing costs of a company and help it achieve more visible and profitable market penetration.

In conclusion though all the factors under investigation had influence on market growth, it was only product differentiation, market orientation

and price skimming that had significant influence on market growth. Therefore improving strategic market orientation and product differentiation will influence market growth by at least over 50%. Also price skimming may be used strategically and more creatively since it had a moderate (43.6%) but statistically significant influence on market.

The paper recommends that firms in the floriculture sector may require to keenly and innovatively formulate strategies that can adequately ensure market growth in the face of fierce competition and unpredictable marketing environment. Strategic decisions need to be also properly monitored and evaluated for effectiveness. Consistency in adhering to strategic decisions in all aspects of marketing may be a point to rethink at Sian Roses.

Future researchers can use more forms to investigate the same issue for comparison purposes.

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