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EFFECT OF COST LEADERSHIP STRATEGY ON THE PERFORMANCE OF BEVERAGES COMPANIES IN NAIROBI, KENYA

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***Abstract*:** *The main purpose of the study was to determine the influence of competitive strategies on firm performance using beverages companies in Nairobi as the case study. To achieve this, the study was guided by an objective to establish the influence of cost leadership strategy on performance of beverage companies in Kenya. The study used a descriptive research design and this was suitable for this research to establish the prevalent conditions of facts in a sample. The target population consisted of five strategic planning departments in the 22 beverage companies. The study utilized systematic sampling technique where items (companies) of the population were arranged in some manner. The study used a sample size of 66 respondents from a target population of 600 management employees. Questionnaires were used in the collection of relevant data according to the variables. In analyzing the data, first a summary of responses was done using descriptive statistics which included the frequencies and percentages. Data analysis and interpretation of questionnaire responses from staff of the companies revealed that cost leadership strategies influence firm performance in the studied branches. These findings indicate that providing cost leadership strategies is a significant factor in firm performance. Such strategies must therefore, be taken into account while developing a cost effective structure and while seeking ways to motivate and satisfy customers. The study recommends that since cost reduction strategies were found to significantly influence performance of beverages companies the firm managers and policymakers of the firms should endeavor to understand the correct choice of cost reduction strategies that work best in their firms along with other strategies to augment firm performance.*

Keywords: *competitive strategies, cost leadership strategy, firm performance*

Background of the study

Globally, Barney (2002) presented Competitive strategy and performance. Their research distinguished performing companies from their opponents in terms of consistence in the way in which they create and uphold this competitive essence. Strategies occur at numerous levels in firms, extending from the overall firms to individuals firms (Thompson, 2006). The concept of strategy is one of the joint concepts employed to approach the sustainability, development of firms. Thompson and Strickland (2010) define competitive strategies as those approaches that a business has, and its attracting buyers, withstand competitive pressure. Lester (2009) argues that competitive strategies enable a firm to predict its business in the future and determine the industries or markets to compete. Jonsson and Devonish (2009) identify that businesses that have appropriately planned and used competitive strategies have a likelihood of having higher performance. Nevertheless, the correlation between competitive strategies and organizational performance is a contentious and uncertain matter in the field of strategic management (O'Regan et al., 2011) in their research found that the drivers of any business performance and sources of persistent competitive advantage have been at the fundamental of strategic management. Further, they argued that firms should have a clear strategic posture and that firms characterized as stuck-in-the-middle perform poorly unlike those pursuing differentiation and low-cost strategies. Porter's generic strategies have been one of the most studied fields of strategic management. However, many research findings have discrepancies as to their performance implications. A couple of studies support Porter's claim that performance of firms pursuing either cost leadership, differentiation or focus strategies are superior than those firms stuck-in-the- middle (Powers & Hahn, 2004) while others reported better performance for hybrid strategies (Leitner & Guldenberg 2010, Pertusa-Ortega et al., 2009).

According to Baack and Boggs, (2008) not all generic strategies are, linked with high performance in a specific industry. For example differentiation strategy is best for e-business to achieve higher performance (Koo, Song, Kim & Nam, 2007) argue that cost leadership strategy implementation by developed countries multinational companies is seldom effectively significant.

In Kenya, manufacturing sector makes substantial contribution to the country's economic development (Awino, 2011). Through effective competitive strategies, this sector has the potential to generate foreign exchange earnings through export and job creation. Murage (2011) examined the competitive strategies in the petroleum industry and established that gas stations use differentiation as a method of gaining competitive advantage over other gas stations. Gathoga (2011) in his study on Kenya commercial banks revealed that banks in Kenya use numerous means such as the expansion into other areas by opening new branchesin order to remain competitive.

Kimotho (2012) on his study on the impact of competitive strategies on the financial performance of CFC Stanbic Bank Limited. The study focused on strategies such as; Segmentation Strategies; Price Strategies; Delivery and Distribution Strategies; Promotional Strategies; Risk management strategies; Product and service differentiation strategies and performance of the bank. The results show that those firms that are effective at rapidly bringing innovative new products and services to the market have gained a huge competitive edge in today's business world. Musia (2013) explored the factors influencing competitive advantage in the beer industry in Kenya. It was, found that the dominant players in the industry expanded their advantage in the industry through generic strategies of product differentiation and low cost leadership on major brands. Nthigah (2015) posits that multinational firms may additionally use avoidance and deterrence strategies to respond to growing competition in Kenya.

Changes in business environment have led to innovative competitiveness in operations and as a result, companies are endeavoring to outdo each other. In pursuit of competitiveness in the market, businesses have had to adopt and develop Porter's competitive advantage strategies to ensure their sustainability. According to Thompson *et al*., (2010), competitive strategies are the action plans that firms adopt in a bid to win more customers, remain relevant amongst competitors and improve their market share. Firms in their particular industry employ these strategies and they must be harmonious with performance of the business/company. They allow the company to stand out in their day-to-day activities and they help determine the markets to compete in and the competitors to compete with (Lester, 2009). Businesses that plan adequately and execute their competitive strategies appropriately tend to improve their performance compared to those that do not (Johnson & Devonish, 2009). The positive change in performance is, attributed to the ability to exploit the available market opportunities (Atikiya *et al*., 2015).

Overview of Manufacturing Sector in Kenya

Advancements in technology, globalization and de-regulation are but some of the environmental forces that have contributed to radical market changes in recent years. These external market forces consequently create new market behaviors and challenges. For example, according to Kotler (2003), customers are increasingly demanding for high quality products and services. They perceive fewer real product differences and show less brand loyalty. Mwangulu (2014) points out that today's markets constitute customers who are capable of obtaining extensive product information from the internet and other sources thus permitting them to shop more intelligently. These customers are sensitive to pricing in their search for value. Firms in the alcohol beverage industry are facing stiff competition from both domestic and foreign brands, which is resulting in rise in promotion costs and shrinking profit margins. As a result, alcoholic beverages are succumbing owing to the rising power of the giant alcoholic beverages and availability of cheap low quality brands.

Owing to the changes in market dynamics and challenges, it is therefore important to note that those firms that do not innovate are prone to fail. The ability of a firm to respond to identified market changes or customer behavior is an important feature exhibited by successful firms. According to Kotler and Keller (2006), there has been a dramatic shift of economic power from producers to consumers. Today's consumers have the ability to access objective information for example on competing brands, including costs, prices, features, and quality without necessarily relying on the individual manufactures. Customers now have the power to specify the kind of services they need and the prices they are willing to pay.

To survive the competitive era, companies have had to change their marketing concepts and tools to guarantee their survival. Not only businesses have been, forced to engage in different activities but also do same old things differently to outdo their competitors. For example, there has been a shift from focusing on transactions to building long term profitable customer relations. From a focus of gaining market share to building customer share. From heavy reliance on one communication tool to such as advertising or sales force blending several tools to deliver on a consistent brand image to customers at every brand contact. From treating intermediaries as customers to treating them as partners in delivering value to final customers. From thinking, that marketing is, done only by marketing, sales, and customer support personnel to recognizing that every employee must be customer focused, Kotler (2003).

In his studies, Ansoff (1999) conceptualized the effects of environmental changes on firms' strategy and capability. He affirmed that in any given environment, an organization must have a suitable strategy. He further recommended striking a balance between existing strategy and the prevailing environment in guaranteeing organization success. It is on this basis that this study sets out to find out how the competitive strategy influences firm performance in the fast changing environments with a specific focus on Crown Beverage Limited.

Beverage Industry in Kenya

The beverage industry is the most vivacious in the Kenyan retail sector because the country mainly depends on agriculture for its manufacturing inputs (Mutunga & Minja, 2014).

Beverage business in Kenya is under the Kenya's food and beverage processing industry, which comprises over 1,200 businesses. The industry dates back to 1992 when two English brothers, George and Charles Hurst, started brewing beer in Kenya. The two formally incorporated their business as a private company under the name of Kenya Breweries Ltd. In 1929, the first malted barley beer was, brewed and the first batch delivered to New Stanley Hotel where it was, opened with mixed reaction. In 1930, the first lager beer was, brewed and released into the market. By 1938, the company was, recognized for its beer after it won the first brewing award in an international competition. Kenya Breweries Ltd became a public limited company in 1934, after which it incorporated Tanganyika Breweries and changed its name to East Africa Breweries Ltd making the first move into the East African market (Export Processing Zones Authority, 2005).

Since then, market has seen entry of many other players. Currently, the major industry players include East African Breweries Limited (EABL), Keroche Breweries Limited, Heineken, Carlsberg, Kenya Wine Agencies (KWAL), African Spirits, Wines of the World (WOW) and Crown Beverages Limited (KBL). The industry has, been characterized by entry of new players and expansive capacity of existing players in response to increasing competition. However, EABL still remains East Africa's largest alcohol beverage company with a production capacity of over 10.5m hl. The company's main operations are in Kenya, Uganda and Tanzania, as well as imports to Rwanda, Burundi and South Sudan. EABL controls about 80% of the Kenyan market followed by Keroche Breweries. Keroche came into existence in 1997 with an objective of meeting the demands of middle and lower income earners. Crown Beverages Limited on the other hand commands 12% market share for both distribution of alcoholic beverages and manufacturing of soft drinks.

Beverage market is among the fastest growing markets with a projected annual growth rate of 10.5% between the years 2017-2021. This is, attributed to the switch for value for consumers who want to identify with international brands and minimizing their spending on leisure drinks. This demand coupled with growth of middle class category has led to expansion of market, which has encouraged expansion and innovation of the existing brands as well as entry of international brands to meet the market demand.

Statement of the problem

In Kenya, manufactures and distributors of alcoholic and beverage brands face an array of challenges most of which have to do with market access, competition from illicit companies, regulatory headwinds, and economic growth that does not trickle down, high production costs and millennial-led dynamics. In the recent past, the industry experienced moderate total volume growth for alcohol and beverages due to general elections that caused slow economic growth characterized by difficult trading environment (Muchira, 2018). Uncertainty in the region saw consumer spending squeezed, as there was a short-term trend towards value, due to massive numbers of casual workers losing their income due to lower spending in the country. In addition, millennial-led dynamics are also altering the industry in favor of spirits and low-end beer brands. Muchira (2018), points out that despite impressive economic growth in East Africa, the trickledown effect has been minimal, which has influenced disposable incomes and slowed down bottled beer consumption in favor of spirits.

According to (Were, 2016), access to markets by alcohol and beverage firms depends on the product sold. For example, major licit brands of alcohol, soft drinks and water such as Tusker, John Walker, Brandy, Alvaro and Keringet have massive market at their disposal but in reality suffer with access issues due to saturation of national market with illicit cheap brands. This translates to lack or reduced domestic market for products in the industry. From a consumer perspective, affordable brands is positive, however, from a manufacturer's perspective, the presence of cheap illicit brands is bad news, as the licit brands cannot compete in terms of price point as well as variety. Therefore, the local manufacturers or distributors have to be extra competitive if they are to access the domestic market.

Rendering to, Wamthai (2018), it has been noted that the selected 22 companies for this study do not fully apply competitive strategies in their production and marketing processes as opposed to other organizations in the same business across Kenya. This has led to downward trends in terms of overall performance. Such trends in most of the beverage companies especially Keroche and EABL might be, ascribed to this. For example there have been small profits and condensed market share for from the year 2015 to date with Keroche and EABL respectively recording a 15% and 7% drop in the profits and market share in the year 2016 as compared to 2015. This got worse with the Covid-19 pandemic. Based on this premise, this study sought to investigate the influence of the competitive strategies employed by Beverages companies and their influence on firm performance

Study Objectives

The purpose of this study was to investigate the influence of competitive strategies on the performance of beverages companies in Nairobi with a specific objective to determine the effect of cost leadership strategy on the performance of beverages companies in Nairobi, Kenya.

Research Methodology

This study problematic was, premeditated over and done, with the use of a descriptive, research design. Conferring on work by Cooper and Schindler (2003), a descriptive study is apprehensive through judging out the whatever, where and how of a phenomenon. The target population of this study comprised of all 600 staff in the management departments in 22 beverage companies in Nairobi. Of the 600 employees, 111 were from top management. Mugenda & Mugenda (2007) clarifies that the target population must have noticeable features to which the investigator aims to take a broad view of the outcome of the study. The study utilized systematic sampling where items (companies) of the population were, arranged, in some manner. A random starting point is, selected and then every nth member of the population was, selected for the sample. To obtain a truly random sample using this method, the list of members in the sampling frame were, randomized by arranging them in numerical order. Companies were, arranged based on their turnover. In this study, self-administered questionnaires with closed and open-ended questions were developed in line with the objectives of the study. This enabled the respondents to provide responses related to variables of study. The questionnaires were, collected after a period of four weeks for analysis.

Research and Discussion

Reliability tests

Cronbach Alpha (α), internal consistency measure was used in determination of reliability of the instrument. Table 1 shows the average Cronbach's alpha value of 0.951 that is above the acceptable value of 0.7. This shows that reliability and internal consistency of the research tool items is high.

Table 1: Reliability tests

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.951	.951	24

Validity tests

This test was conducted using Pearson product moment correlation. This was done by correlating each item questionnaire scores with the total scores. The item-item questionnaire that significantly correlated with total score indicates that the items are valid. Based on the significance value obtained, the p-values are all less than 0.05, so it was concluded that all items in the questionnaire were valid.

The study's objective was to determine the influence of cost leadership strategies on firm performance. Cost leadership was defined in terms of lessening labor input through automation, access to low cost raw material than competitors, spending on technology based delivery system to lower costs, cutting costs and focusing on product design technique that economizes on cost of materials. To achieve this objective statements on cost leadership strategies were identified, against which the respondents were asked to indicate the extent to which they agreed with them. A five point Likert scale was provided ranging from 1 to 5 where 1= strongly agree, 2=agree, 3= undecided, 4=disagree, 5=strongly disagree. The responses were then compared against the corresponding answers given on firm performance. Data on this objective was analyzed under the research question "what is the effect of cost leadership strategies on firm performance?" The results are summarized in table 2.

Table 2: Cost leadership strategies

Item	**1**	**2**	**3**	**4**	**5**	**Median**
We constantly lessen labor input through automation.	26.7%	53.3%	10%	8.3%	1.7%	2
We have access to low cost raw material than our competitors	26.7%	53.3%	10%	10%		2
Our major expenditure is on technology based delivery system to lower costs	13.3%	55%	18.3%	10%	3.3%	2
We always strive to reduce cost in administration activities	16.7%	56.7%	16.7%	10%		2
We identify underperforming areas in order to cut costs	23.3%	41.7%	15%	16.7%	3.3%	2
We focus on product design technique that economizes on cost of materials	25%	51.7%	13.3%	8.3%	1.7%	2

n=60, Key: 1= Strongly Agree, 2=Agree, 3= Undecided, 4=Disagree, 5=Strongly Disagree

The descriptive results presented in table 2 show that the median and mean value for the findings is 2 which shows that the respondents agreed with the statements on cost leadership strategies. These results suggest a relationship between cost leadership strategies and firm performance.

Model Parameter Estimates

In this study the dependent variable (general firm performance) had two nominal categories of (Agree and disagree). The binomial logistic analysis was used to fit the model. From table 3, the variable was statistically significant in predicting firm performance.

Table 3: Model Parameter estimates

		B	df	Sig.	Exp(B)
	Cost leadership	.733	1	.023	2.081
	Constant	23.377	1	.011	14206990938.26

From the parameter estimates in table 3, cost leadership was found to have a positive and statistically significant influence on firm performance at estimate coefficient of 0.733 with an associated p-value of 0.023<0.05. The sign of its Beta is positive (0.733), indicating that cost leadership strategies were 2.081 times more likely to increase firm performance than to reduce. In other words, if an employee agreed compared to disagree on cost leadership strategy, he/she is 2.081 more likely to agree that cost leadership strategy increase, firm performance than to disagree. This finding therefore confirms those suggested by table 2. Therefore, the study established that cost leadership strategies influence firm performance. This means that competitive cost leadership strategies characterized by automation, low cost raw materials, spending on technology, identifying underperforming areas and product design.

Data analysis and interpretation of questionnaire responses from staff of the companies revealed that cost leadership strategies influence firm performance in the studied branches. These findings indicate that providing cost leadership strategies is a significant factor in firm performance. Such strategies must therefore, be taken into account while developing a cost effective structure and while seeking ways to motivate and satisfy customers.

Summary

These findings are in agreement with the views of Chandani *et al*., (2016) and Davies *et al., (*2014) who also expressed similar views. Customer commitment and decision to stick to a specific product of a given firm is dependent on provision of specific competitive strategies that are related, to cost and benefits. Understanding of cost strategy systems is critical in achieving increased level of customer satisfaction and their commitment, which eventually leads to increased firm performance (Davies *et. al.,* 2014). However, to use cost leadership as an effective engagement tool, Chandani *et al*., (2016) postulate that cost leadership strategies such as lessening labor input through automation, access to low cost raw material than competitors, spending on technology based delivery system to lower costs, focusing on product design technique that economizes on cost of materials should be taken seriously.

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