// A SURVEY OF PRODUCT DIFFERENTIATION STRATEGIES ADOPTED BY FIRMS IN THE WATER BOTTLING INDUSTRY IN NAIROBI //

BY

ACHAYO - ALOME KASERA

A MANAGEMENT RESEARCH REPORT SUBMITTED IN PARTIAL FULFILLMENT FOR REQUIREMENT OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA), FACULTY OF COMMERCE, UNIVERSITY OF NAIROBI

JANUARY 2006

Declaration

This management research paper is my original work and has not been submitted for any award in any other institution.

Name: Achayo- Alome Kasera **Signature:** ______________

This management research paper has been submitted with my approval as the supervisor for examination.

Signature M. Ombok **Date:** 9th November 2008

Mrs. Margaret Ombok

Lecturer
Department of Business Administration
Faculty of Commerce
University of Nairobi
Nairobi Kenya

Acknowledgment

I made a decision long before I completed my first degree that studying for second degree was the rule rather than an exception, however little did I know what the entire exercise involved. Indeed it has been a long difficult walk, with many challenges. The course work, and especially the quantitative were very taxing; many of us spent sleepless nights trying to solve mathematical and accounting problems. To say the least I survived the ordeal, thanks to the dedication and assistance of fellow students, tutors and some lecturers.

Being a student means spending time away from home, office and not attending to social issues. This has it's own negative impact. My sincere gratitude therefore goes to my immediate family, my husband Emmanuel and children Abby, Ismail and Zsembo. They had to endure my long absence from home and sadly not being able to attend Sunday mass, as I would be catching up on Management Accounting tutorials. To my extended family I indeed say "Asanteni" for your understanding and support, when I was absent for that wedding ceremony or missing out on a funeral service. As for my colleagues at the office George, Charles, Pascal, Lillian and Lawrence no amount of words can express my appreciation for your support, despite everything all assignments would be completed on time. Special thanks goes to Clarice Anudo my administrative manager who made sure that my office run smoothly.

Lastly I cannot adequately put in words my appreciation to my supervisor Ms. Margaret Ombok. Madam is truly a committed and dedicated teacher. She would seek me out and encourage me to finalize my research and every time I felt like giving up, I would see her number on my mobile phone calling to ask me to be at lower Kabete campus to discuss my progress. There was no way of escaping from Madam, she truly made me feel like a student. If I were to do another research project, then Ms. Ombok would be my number one supervisor of choice. Madam, "Asante sana".

Finally I wish to close by acknowledging the contributions of all the UON personnel who made it possible for me to complete my studies. Thank you all.

Abbreviations

KRA	-	Kenya Revenue Authority
ACP-EU	-	African Caribbean & Pacific – European Union
COMESA	-	Common Markets for Eastern & Southern Africa
IGADD	-	Intergovernmental Authority for Desertification & Development
NPD	-	National Development Programme- Kenya
GDP	-	Gross Domestic Product
IMF	-	International Monetary Fund
SME's	-	Small Medium Enterprises Sector
EAC	-	East African Community
KANU	-	Kenya National African Union
EPZ	-	Export Processing Zone
CIM	-	Chartered Institute of Marketing
KEBS	-	Kenya Bureau of Standards

Dedication

"To my children: Zsembo, Ismail, Abbygail and my ever supportive soul mate Emmanuel Achayo".

Abstract

The bottled drinking water a few years back was treated as a reserve for the well to do. This is no longer the case as the demand for safe drinking water has been on the increase in all sectors. This demand has been catalyzed by the failure of local authority in the provision of a clean drinking water. Despite being in its early stages of development the water bottling industry has experienced reasonable competitive rivalry. This has driven firms to attempt to differentiate their products and offerings to prospects.

This study was conducted with the objective of determining the extent of product differentiation strategies adopted by firms operating in the bottled water industry and if any differences existed between the adoption of product differentiation strategy with respect to size of enterprise. Other factors investigated included the factors influencing choice of these strategies.

This was a descriptive survey with the population of interest being water-bottling firms located within Nairobi city. The study focused only on registered firms (totaling to 59) therefore, a census was conducted. Data was collected using structured questionnaires. The respondents were marketing managers or their equivalent.

Data was collected and analyzed using percentages, mean and standard deviation. The results of the survey indicated that firms do exercise product differentiation strategies and firms, depending on size will often adopt different strategies. The results also revealed that various factors influence strategy selection. Financial strength emerged as a major determinant of strategy selection, whereas the market trends dictated product differentiation strategies for adoption. Small and medium firms expressed concern for stiff competition and were pessimistic about the future. On the other hand large firms were optimistic that there was still a lot of market potential that needs to be exploited.

During the survey several huddles were encountered, however on that stood out was the number of firms approximately 49% who never participated in the exercise due to varied reasons. Out of these 24% out-rightly refused to participate, 15% never returned the questionnaire and 10 % had moved premises and we were not able to locate them for interview. This reduced our response rate to 51% compared to the initial target of 95%.

This study only focused on KRA registered firms, however evidence indicates that there are other water bottling firms operating but are not registered with KRA. We would therefore recommend for further research to be carried out that will involve all the players in the industry.

TABLE OF CONTENTS

CONTENTS **Page**

CHAPTER THREE: RESEARCH METHODOLOGY

LISTS OF TABLES

LIST OF GRAPHS

CHAPTER ONE

INTRODUCTION

1.1 Background

Kenya enjoyed a strong economic growth of almost 7 percent between 1965 through to 1980 (Kenya Trade policy review, 1994). In the early 1980's growth of GDP dipped, and this started a trend that saw the GDP drop to a paltry –0.3 percent by the year 2005. With this came difficult times for both consumers and companies, inflations rate has jumped to a high of 15.4 percent in January compared to 7.6 percent in December 2005 (Financial Standard Feb 7, 2006). An insight into the Kenyan economy reveals that agriculture provides about 30 percent of GDP in Kenya and approximately 80 percent of employment (Trade review 1994). Meanwhile the manufacturing sector contributes about 13 percent of GDP (Onyango, 2003). Being an agricultural country means that if there is drought like the one experienced in 1984 the economy suffers tremendously.

The effect of the 1984 drought was such that the country could not meet its balance of payment and therefore the inability to service foreign debts common to most African governments (Campbell and Loxley, 1989). To avoid economic collapse most African governments including Kenya had to reluctantly agree to conditions put forth by foreign donors such as structural adjustment programs (SAP) and economic policies directed by IMF and World Bank for them to receive balance of payments loans (Campbell and Loxley, 1989). In Kenya, the effects of these conditions were felt in the early 1990's when the government implemented the in-famous retrenchment programs in the public sector. This marked the development of SME's and Jua Kali sector managed by indigenous Kenyans who needed to create employments for themselves. Other economic reforms led to producer price decontrolling and liberalization of trade leading to removal of licensing of imports and exports trade, bringing with it massive competition and erosion of trade preferential treatments.

It is from the above trend of activities that encouraged the formation of trade bodies such as COMESA, EAC, ACP-EU, partnership agreement and IGADD to utilize the existing opportunity (NDP-Kenya 2002-2008). It seems the start of 1990's signaled major changes for Kenya as a country. The political landscape changed, as Gulf war started in 1990 with negative impact on tourism. Again, quiet uprising against one party state rule of KANU government had slowly taken root. The relationship between the government and donors was not at it's best and therefore donor support was frozen. The effect of declining economy, infrastructure neglect, and poor governance was being felt by citizens and investors a like. There was a clamor for change in administration. This was made worse by another drought in mid 1990's that led to power rationing in year 2000 due to low levels of water needed to generate electricity. The cost of industrial production was pushed upwards as electricity tariffs increased dramatically and some firms relocated their plants to other countries. Some measures put in place by the government during this period towards industrial sector adjustment program, was the establishment of Export Processing Zones (EPZs) as a way of initiating industrialization and moving away from import substitution and towards export promotion.

In response to these changes the business environment in Kenya witnessed mergers and takeovers in various sectors. According to Onyango (2003) the harsh economic conditions gave rise to 203 mergers and takeovers. Notable mergers included Glaxo Wellcome and Smith Kline Beecham, Crown paints and Berger paints. Intense competition brought about by liberalization pushed major firms such as Unilever Kenya to sell of some of it's flagship brands such as Kimbo cooking fat to Bidco group, while Unga group sold its Elianto corn oil brand to CPC foods (Best foods) who eventually sold it to Bidco group. Competition has also led firms to diversify into other areas of business, at the start of year 2003 Coca Cola moved into water bottling through the launch of its Dasani brand in Kenya (Financial Standard Tuesday 14th, Feb 2006). The competition for customers' attention is very intense as every company seeks to capture a share of the market. Strategies to attract consumers are constantly changing and the concept of product differentiation is increasingly becoming an important tool used by companies who wish to stand out.

1.1.1 Differentiation strategy

A strategy is a commitment to undertake one set of actions rather than another (Thompson and Strickland, 1995). It can be thought of as a blue print for a particular idea(s). A differentiation strategy assumes that competitive advantage can be gained through particular characteristics of a firm's product, (CIM study text 1999). According to Porter, (1985) product differentiation is a process through which a product is given unique attributes that are valued by customers. Products maybe categorized as: Breakthrough products (new and innovative), improved products (superior or better performance) or competitive products (more attractive compromise). This strategy differs from market differentiation, in which competitors make different offering across the entire market (Paliwoda, 1993). Product differentiation can be achieved by; building the brand image, giving the product special features to make it stand out and also through the exploitation of other activities within the value chain such as quality after sales service. Kotler (2003) looks at product differentiation as a combination of varying items such as products form, features, performance, conformance to quality, durability, and reliability of the product.

Companies adopt differentiation strategies to gain competitive advantage over their rivals (Muchira, 2005). According to Porter (1985), differentiation if achieved is a viable strategy for earning above average returns in an industry because it creates a defensible position for coping with market competitive forces. Differentiation provides insulation against competitive rivalry because of brand loyalty by customers and resulting into lower sensitivity to price while increasing margins (Porter, 1985).

Product differentiation secures a measure of control over demand for a product or service by advertising or promoting differences between various offerings. Schiffman and Kanuk (2002) affirms that most product differentiations are designed to distinguish competing brands on the basis of relevant attributes that are meaningful and valuable to consumers. Once stimulus differentiation has been achieved in the consumers mind it is very difficult to unseat and change their perception about the brand (Schiffman and Kanuk, 2002). For successful differentiation, customers have to understand the difference between the competing brands.

1.1.2 The Bottled drinking water Industry in Kenya

The provision of high quality drinking water is a fundamental element of good public health. Outbreaks of water borne diseases have raised concern about safety of drinking water supplies in many developing countries. Maintenance of the microbiological quality of water has been used as an important means of preventing water borne diseases through out the twentieth century. Kenya's local authorities have over the years provided residents with water though demand has often exceeded supply. The fear of drinking tap water by consumers gave birth to commercially bottled drinking water. Bottled drinking water industry is a fairly new entrant into the Kenyan market. Majority of the Industry players are less than 20 years old in the business (Wangari, 2005). This is an industry at the early stages of it's life cycle and therefore attractive to potential investors.

Commercial bottled drinking water is sourced as either Underground water or Surface water. This drinking water is packaged as "still or sparkling" water and marketed under the brands such as; Mineral Water, Spring Water and Purified Drinking Water. Natural mineral water has its origins from underground water table, some of which are naturally occurring through springs or from dug up boreholes. According to Barrell and Nichols (2000) natural mineral water are rare and have been associated with failure to satisfy statutory standards. The water must not be chemically treated in any manner to alter its chemical and microbiological composition (Barrell and Nichols 2000). Most commercial water packers in Kenyan market subject the bottled water to Ultra Violet rays for sterilization purposes. Mineral water as the name states should have additional minerals that are lacking in the normal water and should therefore have a slightly different taste from the normal tap water, (KEBS standards, 1998).

Spring water is surface water originating from a high mountain springs occurring naturally and the bottling is done at source to avoid any contaminations. Purified water is mainly sourced from surface water collected in dams and is chemically treated before bottling. The surface water in this case is either from rivers and lakes and stored in reservoirs for future use. In total there are approximately 135 commercial water bottling companies in Kenya each marketing their own specific brand (Financial Standard, 14th Feb 2006). The competition is therefore fierce since the bottled water targets only specific segments of the market due it perceived luxurious status and thus its affordability.

The management of water and its distribution is the responsibility of the various city councils and municipal councils. Nairobi City Council is the local authority responsible for delivery of clean safe water to Nairobi residents, through the Water and Sewerage Committee that was established in 1970 (Wangura 1981). Nairobi which gets its name from Maasai word " Nakusontelon" meaning the beginning of beauty was bisected by a stream providing cool waters (present day Nairobi river) and the Maasai called it Uaso Nairobi (Gupta, 1981). The main water supply to Nairobi in 1921 was controlled and owned by Railways after which it was sold to Nairobi town council. Water supplies for the city are from four major locations: Sasumua and Ndakaini Dam, Ruiru, and Kikuyu Springs. The trunk mains from these sources feed the reservoirs at Kabete, Gigiri and Hill Tanks amongst others. The water treatment plants are located at Sasumua, Ngethu, Kabete and the Central laboratory is located at Kabete (Wangura, 1981).

Treated water reaches taps through service lines that were laid many years back, and are in dire need for replacement. Wanguru (1981) in his studies showed that the number of leakages in the service and mains pipes increases dramatically from low density residential areas such as Lavington and Muthaiga to high density residential areas such as Eastland's. These leakages introduce dirty water into the system and also allow deadly bacteria to access the water. Transmission risks are higher in areas that lack, proper sewerage systems and have poor sanitation. Studies conducted by Makutsa et al (2001) indicated that diarrheal disease are a major cause of morbidity and mortality among children younger than 5years of age, due to inadequate water treatment and human waste disposal infrastructure. Other factors that contribute to water shortages and contamination include, human activities such as environmental degradation, vandalism of water pipes, Informal settlements along rivers and lakes resulting into water pollution. Daily Nation (Jan 25th 2006) reported vandalism along the 220km Mzima pipeline and the 50km Marere pipeline that supplies the Mombasa residents with water. The Water Act 2002 led to the establishment of institutional framework necessary for improvement of water and sewerage service. It separates the water and sewerage services from water resources management and minimizes conflict of interest between allocation and service provision (The Standard Jan 27th 2006).

As the demand for clean drinking water escalates, the stage is set for bitter confrontation between established industry players and the new entrants who also hope to create a niche for themselves in water bottling. Within the business arena only those companies that can sniff opportunities from miles ahead will survive as they develop the right strategies to capture the opportunities in place. All businesses set out to survive and grow, the continuing intent and purpose of any business enterprise is profitable growth (Ferrell, 1972). In such situations water is no longer just water, there is need to have additional value in every bottle so as to make it appealing to possible consumers. This has been the launch pad for differentiation into either Still water, Carbonated water or Flavored water.

1.2 Statement of the Problem

Access to safe drinking water remains a challenge in many developing countries including Kenya. Bottled drinking water plays a major role in bridging the gap in the provision of clean, safe drinking water to residents by local authorities. On the other hand, the bottled water market is driven by the consumers demanding healthy soft drink alternatives and peoples increased knowledge about the need to stay hydrated. Health is becoming an increasingly influential factor in consumer choice of what to drink and water is more and more attractive due to its pure nature I.e. no sugar, no fat, no calories and so forth. Amongst the younger generation it has become fashionable to carry around sleek bottle of water that is either "still or sparkling". There has been a high demand for bottled water judging by the number of industry players locally and even globally. However, as more companies' join in the race the competition has intensified and firms have to continually differentiate themselves so as to enable the maintenance of market shares. More than ever managers in these companies need to map out their stakeholders in order to develop survival strategies.

As stated in the Financial Standard (February 14th 2006), established bottlers have complained of declining market share as new entrants claim their stake in the existing market. Out of approximately 135 bottlers only handfuls are registered and pay taxes (Financial Standard 14th February 2006). According to KRA public notice January 31st (2006) only 59 out of the possible 135 companies are registered and have the legal mandate to pack bottled water, meaning that all the rest are operating illegally. Fierce competition is reducing the margins on profits per liter of water. Customers on the other hand are finding it more difficult to make a choice on which brands to consume. Customers, according to Muchira (2005) choose on the basis of certain criteria that would enable them discriminate one product from another. This forms the basis for product differentiation. Established firms have now started investing more on advertising to boost sales and win customer confidence (Financial Standard, 14th February 2006). This is done with the hope that customers will perceive significant contrasts between the various brands.

Studies that have been conducted on water and related topics both locally and internationally, have had focus on microbiological quality of water and water borne diseases. For examples the studies by Makutsa et al (2001) focused on the challenges of implementing point of use water quality intervention in rural Kenya. The theme of the study was on behavior change for purposes of water borne disease control. The study by Hellard et al (2001) focused on gastrointestinal health effects of drinking water in homes in Melbourne Victoria

Australia. In this study randomized blinded control trials were conducted to determine the contributions of water to gastroenteritis. Their findings though significant may not shed light on differentiations strategies used in water bottling industry. Other studies conducted on water bottling include that by Wangari (2005) and Kisese (2002). The latter investigated the various alternatives available as substitutes to water while the former focused on finding out the determinants of brand equity in the water industry in Nairobi. In both studies product differentiation was not investigated.

Given the competitive nature of firms in the industry as well as the emergence of bogus firms, there is need for managements to formulate more effective differentiation strategies. Currently it is not clear which differentiation strategies existing firms are using to enhance their competitiveness. The study was designed to fill the gap by receiving responses to the following research questions.

i) Which are the product differentiation strategies currently used by water bottling companies?

ii) What factors influence the choice of the differentiation strategies used?

1.3 Objective of the study

The objectives of the study were as follows: -

i) Determine the extent of product differentiation strategies adopted by firms operating in the bottled water industry.

ii) Establish if any differences exist between the product differentiation strategies utilized by the small, medium and large firms.

iii) Establish factors that may influence choice of differentiation strategies selected by the various industry players.

1. 4 Importance of the study

The outcome of the study may be of use to the following: -

i) In understanding the operations of commercial water bottlers, provide an insight into effective differentiation strategies that are needed to develop and sustain competitive advantage in view of changes in the environment.

ii) Assisting in identification of opportunities by potential and current investors that may exist in the industry and how they can be exploited profitably through differentiation.

iii) Scholars and academicians in referencing and appreciating the significant differences between the different brands and why they are packed and marketed as such.

iv) Shade light on the challenges experienced by players in this industry who's entry barriers are not as prohibitive and marketing policies not clearly stated.

v) Government agencies and policy makers may utilize the results of the study to further develop and formulate reinforcable framework and guidelines for the industry to raise industry entry barriers.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

As the environment changes it is necessary for the organization to change with it, if it has to survive. Various survival strategies need to be put in place to ensure the future existence of the firm. However for individual products to survive in turbulent environment, they need to be rejuvenated every now and then. In the changing environment, Pearce and Robinson (2002) recommend three critical ingredients for strategy to succeed. They state that, firstly the strategy must be consistent with conditions in the environment; it must take advantage of existing and projected opportunities and minimize the impact of major threats. Secondly, the strategy must place realistic requirements on the firm's resources. Lastly and importantly is the execution of these strategies for their effectiveness.

Corporate strategy involves decisions and directions for all operational functions of the entire organization, whereas marketing strategy incorporates decisions relating to the positioning of the marketing mix to exploit and develop product or market opportunity (CIM study text, 1999). Once a firms' management has identified issues in the market to be dealt with, then appropriate strategies need to be developed leading to strategic choices selection. The strategic choices can be either; how to compete, the direction of growth and methods of growth (Porter, 1985). Competitive strategy looks at how best a firm can compete in the market place by creating competitive advantage for itself (CIM study text, 1999). Competitive strategy, and its core discipline of industry analysis, competitor analysis and strategic positioning are key components for the development of effective business strategy. According to Thompson and Strickland (1995) business strategy is the overall game plan for a single business unit. The central thrust of a business strategy is how to build and strengthen the companies' long-term competitive position in the market place. Basic competitive approach of the business strategy being either; low cost, differentiation and focus strategy.

2.2 Differentiation strategy

Differentiation can be viewed simply as a strategy that adapts an organizations offering to a changing environment and it acts as one of the barriers to industry entry. Kotler (2003) highlights the importance of identifying industry five forces that determine the intrinsic long-run profit attractiveness of a market or market segment: industry competitors, potential entrants, substitutes, buyers, and suppliers. Porter (1985) identifies potential entrants as a threat to existing business and the need to have barriers in place. Product differentiation as a barrier to entry, meaning that firms have brand identification and customer loyalties, which stem from past advertising, customer service, product differences, or simply being first into the industry. Differentiation creates barriers to entry by forcing entrants to spend heavily to overcome existing loyalties.

Differentiation strategy assumes that competitive advantage can be gained through particular characteristics of firm's products. Kotler (2003) defines differentiation as the process of adding a set of meaningful and valued differences to distinguish the company's offering from competitor's offerings. As highlighted by Muchira (2005) in highly crowded markets it is absolutely essential that firms differentiate their offering in order to draw customers towards their services or products. Uniqueness should go beyond both physical characteristics and service attributes to encompass everything that impacts customers' perception of value. Differentiation offers opportunity for non-price competition, which at level can be met by certain product attributes and or variations so that differentiation can effectively take place.

When products are differentiated they increase variety of available offering to the consumer, thus increasing the range of consumer choice, this leads to segmentation of the market, leading to higher prices and costs. Mburu (2001) noted that differentiation is a four-part process, whereby there is a *Generic Product*- Core product, nothing is added functional aspects only, *Expected Product*- Minimal value expected by buyer features, design, packaging and price, *Augmented Product*- Value that surpasses a buyer's basic expectations. Service guarantees, add-ons, delivery and availability, *Potential Product* -

Binding buyers to the branded item. Brand name, quality and value perceptions reputation

2.2.1 Benefits of product differentiation

Product differentiation is important in that it has the capacity to create perceived products differences between the offerings made by various companies. Companies do compete by changing the characteristics of the product they sell, the idea is not necessarily to make a better product than the competitor, just different so as to appeal to a different "market niche." Consumers like to believe that they base their product quality evaluations on intrinsic cues because they can justify resulting product decisions (either positive or negative) on the basis "rational" or "objective" product choice (Schiffman and Kanuk, 2002). More often than not, however, the physical characteristics they use to judge the quality have no intrinsic relationship to the products quality as evidenced by the failure of blind tests. Consumer reports for example found that consumers often cannot differentiate among various cola beverages and that their preference are based on such extrinsic cues as pricing, packaging, advertising and even peer pressure (Mburu, 2001).

However when products are subjected to discrimination, consumers are able to develop a mental picture based on different cues and therefore develop preferences. For example when a low-priced store carries a brand with a high priced image, the image of the store will improve while the image of the brand will be adversely affected (Mburu, 2001). With respect to price, PIMS research shows that the relationship between relative perceived quality and relative price associated is a two way street. A higher price on average leads to higher relative perceived quality. The relationship is consistent with the notion, that in the absence of complete information, price is used as a signal of quality (Schiffman and Kanuk, 2002).

Another benefit of differentiation is the fact that it leads to non-price competition, that is a marketing strategy in which one firm tries to distinguish its product or service from competing products on the basis of attributes like design and workmanship (McConnell-Brue, 2002). The firm can also distinguish its product offering through quality of service, extensive distribution, customer focus, or any other sustainable competitive advantage other than price. It can be contrasted with price competition, which is where a company tries to distinguish its product or service from competing products on the basis of low price. Non-price competition typically involves promotionial expenditures, (such as advertising, selling staff, sales promotions, coupons, special orders, or free gifts), marketing research, new product development, and brand management costs.

When product pricing becomes the basis of competition, marketing losses its meaning and the focus turns automatically to how much lower can the price can go. This is the type of challenge that most marketers would rather avoid. Firms will engage in non-price competition, in spite of the additional costs involved, because it is usually more profitable than selling for a lower price. In the worst case scenario, competitors will start to lower prices resulting in a price war (McConnell-Brue, 2002) .

According to Stanton (1987) in price competition sellers attempt to move up or down their individual demand curves by changing prices. Whereas in non price competition sellers attempt to shift their demand curves to the right by means of product differentiation, promotional activities, or some other device . Stanton (1987) in his example illustrates how the demand curve can shift such that the producer of a given model of skis DD, which can be sold at $ 150, can sell 35,000 pairs a year in Western ski market. On the basis of price competition alone, sales can be increased to 55,000 if the producer is willing to reduce the price to $ 130. The demand curve is still DD. However if the producer is interested in boosting sales without any decrease in seling price, through introducing promotional programes i.e non price competition. The target sales remains at 55,000 units per year at the price of $ 150. In effect the entire demand curve is shifted to D' D' . In price competition there is no customer loyality since price is the determining factor on sales. However in non price competition a culture is introduced such that this culture becomes the determining factor when purchase has to be made.

However it should be remembered that as a general rule better products have a higher price, both because of higher production costs (high quality materials, longer production, specialized labor) and bigger expected advantages for clients, partly reflected in higher margins. Therefore, product pricing plays a major role in consumer purchase decision. For example consumers without their own opinion or the capability of directly judging quality may rely on the price to infer quality. They will prefer to pay a higher price because they expect quality to be better.

Products can be vertically differentiated through expansion either backwards or forward. Vertical integration extends a firm's competitive scope within its industry (Thompson and Strickland, 1995). It involves expanding the firm's scope either backward into sources of supply and /or forward towards end users of final product. Vertical marketing systems maybe characterized as corporate. In such a case the firm's production and marketing facilities are owned by the same company (Stanton, 1987). Therefore the firm is in full control of its product distribution channels both major and minor channels Coke Cola company is a good example. According to Piana (2003) vertical differentiation occurs in a market where the several goods that are present can be ordered according to their objective quality from the highest to the lowest. It's possible to say in this case that one good is "better" than another. Vertical differentiation can be obtained: along one decisive feature or across a large number of features each of which has only a presence/absence or along a few features, each of which has a wide possible range of (continuous or discrete) values; it is possible to find out a product that is better than another one according to one criteria but worse than it in respect to another feature (Piana, 2003). Vertical differentiation is a property of the supplied goods but, as it is maybe needless to say, the perceived difference in quality by different consumer will play a crucial role in the purchase decisions. In particular, potential consumers can have a biased perception of the features of the good because of either advertising or social pressure, (Piana, 2003).

When products are different according to features that can't be ordered, a horizontal differentiation emerges in the market. For example ice cream offered in different tastes. Chocolate is not "better" than lemon (Piana, 2003). Similarly water may be offered as either "still or sparkling", "plain or flavored water" they basically serve the same purpose. Horizontal differentiation can be linked to differentiation in colors (different color version for the same good), in styles (e.g. modern / antique), in tastes. This does not prevent specific consumers to have a stable preference for one or the other version, since one should always distinguish what belongs to the supply structure and what is due to consumers' subjectivity (Piana, 2003). It is quite common that, in horizontal differentiation, the supplier of many versions decide a unique price for all of them. From the above example, chocolate ice-creams cost as much as lemon ones. Fashion waves often emerge in horizontally - differentiated markets with imitation behaviors among consumers and specific styles going "in" and "out" of fashion (Piana 2003).

2.3 Product differentiation strategies

As markets expand what used to be national markets with local companies competing for business have become known as global markets. Customers have to many choices that can be fulfilled instantly. Differentiation gives customers reason to choose products. For differentiation to succeed then the customer must understand the difference. If a product is not different from others then it is not differentiated and it must therefore have a low price. Similarly if a product is highly priced it must be different so as to justify the price.

2.3.1 Product branding

A brand as defined by CIM (1999) catalogue as a collection of attributes that strongly influence purchase. While Kotler (2002) looks at branding as a name, term, sign, symbol or design or a combination of them, intended to identify the goods or services of seller or groups of sellers and to differentiate them from those of competitors. Branding and an enterprise reputation are linked and branding is important in that it is something that customers' value, since it exists in the customers mind. Therefore a brand is the link between an enterprise marketing activities and the customers' perception. Commodities have lost out to brands since they are considered as items that can be copied by competitors quickly and become outdated with time. Whereas brands are what the customers buy for their uniqueness.

A successful brand is identifiable; it can be a product, service, place or even a person (CIM study text, 1999). These successes are associated with differentiation and value added on the brand. Brands are augmented so that the buyer or user perceives it in a specific way (positioning), since it satisfies and matches the needs of customers uniquely and are often highly priced. These brands maintain a value that such that customers' re-buy thereby establishing brand loyalty.

Branding encourages the consumer to associate certain attributes with a product/service. It differentiates very similar products into distinct segments of the market. Therefore branding has become an important psychological element in the purchase decision. With time customers have come to learn that they can trust the branded supplier to provide only goods of quality associated with the brand and because the brand itself provides psychological benefit of ownership. This added value theory rides on the subjective beliefs of customers and are at the heart of building brands (CIM text, 1999). These added values are largely subjective and therefore most consumer buying decisions do not depend on the functionality of the product. Products are bought for emotional reasons and branding simply reduces the need to choose. Branding is significant in product growth and survival in that it facilitates brand extension that capitalizes on initial flagship brand success; most importantly it acts as a major differentiation tool.

2.3.2 Product positioning

A firm may position its brand as a super premium, premium or even an economy depending on the target market (Aaker et al, 2002). This will enable the firm charge premium price for its products. Price premium can increase the profits, and/or provide resources with which to reinvest in the brand. Successful brands carry with them a perceived high quality and this can also be meaningful to retailers, distributors and other channel members and thus aid in gaining distribution. The image of a channel members are affected by the products or services they carry. When positioning a product, marketers adapt the marketing mix so that the target market will see the product as meeting important wants or needs (Churchill and Peter, 1995). For positioning to succeed it must deliver what it is positioned to deliver, for example if a car is positioned as safe and reliable it must actually measure up.

In positioning a product, the marketer also has to consider the relationship of the products position to those of competition (Churchill and Peter, 1995). For instant, is the product a market leader or market follower or maybe the product is so innovative that no competition exists. Before positioning is achieved it is important for the marketer to determine the general perception of consumers of the product category. To achieve this a positioning map should be put in place to show how consumers perceive different brands in terms of their specific attributes (Churchill and Peter, 1995). One significant aspect about positioning is that it is subconscious, and will often be permanently embedded in the consumers mind, thereby making it difficult to shift these beliefs ones they have been put in place.

2.3.3 Product development

When developing a product be it new or an old product that is being improved, it is important to pay attention to various differentiation factors, such as product form, performance, conformance to quality, reliability and repairability, finally product design. These differentiation factors will vary depending on the type and nature of the product.

The product form will often include the size, color, shape or the physical characteristics of the product (Kotler, 2003). A product is primarily given color to make it attractive to the consumers with the aim of also differentiating it from others (Churchill and Peter, 1995). The color appeal is significant in that it relates to the perception of the target market and to some extent it may influence the success or failure of a brand. Product size and shape focuses on convenience and customer comfort. They differentiate brands based on the range of available sizes and shapes. The more the variety the more expensive it is to maintain the range.

Kotler (2003) looks at product performance as a differentiation factor that concentrates on the quality of the product performance. This can be categorized as, low, average, high or superior. The customer expectation on product performance will be greatly influenced by how the brand was positioned.

The degree to which all produced units are identical and meets the promised specifications can make an ideal differentiation theme (Kotler, 2003). Therefore conformance to quality is important especially if the brand is positioned as superior against competition, there should be no variance in quality.

Consumers normally will pay a premium for more reliable products (Kotler, 2003). Reliability, being the measure of the probability that a product will not malfunction or fail within a specified period (Kotler, 2003). Again consumers prefer a product that are easy to repair. Repairability is the measure of the ease of fixing a product when it malfunctions or fails (Kotler, 2003).

As competition intensifies, design offers a potent way to differentiate and position a company's product/service (Kotler, 2003). In fast paced markets price and technology are not enough. Design is the factor that will often give a company its competitive edge (Kotler, 2003).

2.3.4 Product life-cycle and differentiation

Just like people products go through a life cycle. They grow in sales, mature, decline and are eventually replaced. From birth to death a product's life cycle can generally be divided into five stages, (Stanton, 1978) – introduction, growth, maturity, decline and abandonment. High product differentiation with radically different proposals is typical of the early stage of a products life until a dominant design will replace technically imperfect or simply unlucky brands.

Afterwards, when the product reaches the maturity stage with few main competitors, differentiation re-emerge with such ferocity (often due to minor external changes) as an attempt to soften price competition and to reach new niches of consumers. During maturity stage of life cycle the focus for products is mainly survival against "me too" competition. Thompson and Strickland (1995) emphasize the importance of matching strategy to a company's situation, such that with each of the every five classic type of industry environments.

2.3.5 Channel management

Channel management is an important part of differentiation strategy. In the normal traditional channel, members make little or no effort of consulting with other channel members on issues such as product pricing and so forth. They simply buy and sell commodities as per the demand in place. According to Churchill and Peter (1995) channels of distribution consists of elements of the marketing mix that consists of getting the product to the targets so that it will be convenient to buy.

The channels consist of organized networks of entities that perform all the activities required to link producers with users of products (Churchill and Peter, 1995). To avoid channel members conflict and for differentiation to succeed there must be co-operation amongst the channel members. These conflicts may be vertical or horizontal. The vertical conflict may occur between firms at different levels of the channel distribution. For example a producer and a retailer may disagree about how much shelf space or promotion effort the retailer should give the producer's product. Horizontal conflicts occur between firms at the same level in the channel of distribution. E.g. Uchumi supermarket Ngong road that keeps a complete line of Keringet mineral water on display isn't happy to find out that Nakummat Ngong road that is on the same street is offering customers lower prices on special orders of the same items. Within the vertical marketing systems the entire channel systems focuses on the same target market at the end of the channel. Therefore if the final consumer does not buy the entire channel suffers.

According to Coughlan et al (2001), differentiation and commitment go together, manufacturers whose marketing strategy is to differentiate their offering are likely to build closer relationship with channel members. To manage competition some firms are engaging in different forms of distribution strategies. These, Intensive distribution: involves selling the product through all responsive and suitable wholesaler, retailer, who will stock and sell the product. Selective distribution: selling through only those intermediaries who will give the product special attention. Exclusive distribution: involves selling through only one intermediary in a particular area. Whatever the strategy selected, the bottom line is that the producer has to appeal to both the channel members and the final target consumer.

2.3.6 Promotion as a product differentiation strategy

Promotion according to Kotler (2003) primarily covers four elements, advertising, personal selling, sales promotions, and product pricing. These are powerful marketing communication tools that have the ability of creating perceived product differences amongst the various brands. Advertising makes targets favorably inclined towards a product (Chunawala 2000). The frequency of adverts, intensity and choice of media of advertising plays a significant role in maintenance of top of mind product placement. Perceptions held about a product by targets are greatly influenced by adverts and this plays a major role in positioning. Sales promotions and personal selling act as product differentiators based on the extent of what is perceived to be offered for free. If the target believes that they are gaining, then they are likely to prefer the brand. Pricing is an important product differentiator since price has the psychological positioning effect. High price is often synonymous with high quality and the opposite is true for low price depending on the situation at hand. Because of this firms may choose to use pricing strategies such as penetrative pricing or price skimming to differentiate their offerings.

2.4 Factors influencing choice of differentiation strategy

Differentiation strategy, involves the use of unique attributes that are valued by customers and perceived to be better than those of competing firms. For differentiation to succeed several factors are integrated together to provide the appropriate platform from which the strategies may be launched. Factors such us the availability and access to scientific research, highly skilled and creative product development team, a team that is able to communicate the perceived strengths of the product, a good corporate reputation for quality and innovation will cement the various factors and contribute to the success of differentiation. However these are just a few elements amongst the many that are needed for differentiation to take root, the following are significant influencers of choice of differentiation.

Once a firm has identified their target group, the next step is to segment the market. Market segmentation is the process of grouping a market or customers into smaller subgroups(Piana 2003). Segmentation is derived from the recognition that the total market is often made up of submarkets each with similar and specific unique needs. These segments are homogeneous with certain similar attitudes about certain variables. Because of this intra-group similarity, they are likely to respond somewhat similarly to a given marketing strategy. They are likely to have similar feeling and ideas about a marketing mix(Piana 2003) . For segmentation to be successful there needs to be homogenity within the segment and heterogenity between segments that are measurable and identifiable. The segments have to be accessible and actionable and large enough to be profitable. The indepth segmentation looks at all the segmentation varables such as, geographic, demographic, psychographic, behavioral (Appendix I). The entire exercise is tidious and requires adequate finance.

Day (1980) describes model of segmentation as the top-down approach: starting with the total population and dividing it into segments. He also identified an alternative model which he called the bottom-up approach. In this approach, the starting point is with a single customer and build on that profile. This requires the use of customer relationship management software or a database(Day, 1980). Profiles of existing customers are created and analysed. Various demographic, behavioural, and psychographic patterns are built up using techniques such as cluster analysis. This process is sometimes called database marketing or micro-marketing. Its use is most appropriate in highly fragmented markets. McKenna (1988) claims that this approach treats every customer as a "micromajority". Pine (1993) used the bottom-up approach in what he called "segment of one marketing". Through this process mass customization is possible.

After the identification of the variables finance has to be allocated towards any intended future action. The finance department has the responsibility to evaluate the profit implication of different business actions (Kotler, 2003). Marketing activities are often costly, items such as marketing research costs, advertising costs, sales promotions, sales force allowances and so forth. Marketers view these costs as investments rather than expenses, but finance persons evaluate them from the profit point of view, of how much revenue will such activities generate (Kotler, 2003). Since financial allocation has to be done for the entire company, the marketing department has to tailor its budget according to available finance.

The type of competition within the business arena often determines which defensive strategies a company will adopt. Once a company identifies its primary competitors, it must ascertain their characteristics, specifically, their strategies, objectives, strengths and weakeness, and reaction patterns (Kotler, 2003). Companies react differently to competitive assaults. Some are slow to respond and others respond to only certain types of attacks. Others strike back swiftly and strongly to any assault (Kotler, 2003). The nature of competition will influence the budget allocation for various marketing activities needed to keep competition at a distance.

Technological environment is a dynamic force that companies have to contend with. It is one of the dramatic forces shaping up people's lives (Kotler, 2003). As noted by Kotler (2003) every new technology is a force for "creative destruction". When a new technology is discovered another is likely to be rendered obsolete. How fast or slow differentiation strategies are developed and implemented is greatly influenced by type of technology in place. Technological uncertainties will always prevail when strategies are developed to propel products and services in the market place.

2.5 Summary

In a dynamic business environment, organizations have been driven to adapt strategies that will ensure their survival. Proactive strategies assist firms in predicting the future and how best to handle competition and emerging trends. Differentiation has been one such proactive measure that has been adopted by firms to overcome competition and increase sales. Differentiation simply means that an organization adapts its offering to the changing environment, while creating certain barriers to entry. When products are differentiated they increase the variety available for offering to the consumer.

Product differentiation has the benefit of creating perceived product differences between the various brands. Through differentiation companies compete by changing the various characteristics of their products. The idea is not to necessarily make or develop better products, but to simply have a different product to appeal to a specific niche of the market. Product differentiation has the ability to create product preferences through product development, branding and re-branding, positioning, distribution amongst others. All of which have significant impact on customers.

CHAPTER THREE
DESIGN AND METHODOLOGY

3.1 Research design

The research study is a descriptive survey. We collected data on differentiation strategies utilized by water bottling companies. The study focused on answering the questions that had been identified. This was extremely important in that it ensured the data collected was relevant to the question raised (Mugenda and Mugenda, 2003). The researcher hoped to identify the guideline of what, why, when, who and how strategies are developed and implemented by firms under study. Muchira (2005) and Wangari (2005) successfully used descriptive design in their studies of similar nature.

3.2 The population

The target population of this study was water-bottling companies operating in Nairobi. According to Financial Standard Tuesday 14th, February 2006, there are 135 water-bottling companies that are operating in the Kenyan market. However according to Kenya Revenue Authority list published on 31st January 2006, only 59 of these companies are officially registered. The study only covered registered firms. Due to the small number of the population, a censor study was conducted.

3.3 Data collection method

Primary data was collected using structured questionnaires administered by research assistants. The respondents were marketing managers or their equivalent. In each company the marketing manager or his/her equivalent was personally interviewed using structured questionnaire. The researcher conducted the study with the help of two research assistants, who were trained to enable them carryout the research activities professionally. The questionnaire was divided into three sections. Part A had general questions on the company, such as history; Part B had questions on the product differentiation strategies, while part C had questions on company measures on success of its product differentiation strategies

3.4 Operational dimensions of product differentiation

Product differentiation can be achieved through the product itself, by building the brand image, giving the product unique packaging, positioning, distribution, pricing and promotion. These variables have been operationalised below as follows; and a Likert scale was used to measure the extent of application of these strategies.

Table 1: Operational dimensions of product differentiation strategy

Broad generic dimension of Product Differentiation Strategies	Expanded Dimensions	Relevant Issues	Relevant Questions
1. Product	Quality	Meeting set standards ▪ Kenya Bureau of Standards (KBS) ▪ Government Chemists ▪ Others	7
	Life of the product	▪ Shelf life of the product ▪ Still water ▪ Sparkling water	7
2. Branding	Brand Name	Unique product name ▪ Appeals to customers ▪ Recognized ▪ Remembered easily ▪ Brand extension	6 a. b. 7
	Brand Association	Social Class ▪ High class ▪ Middle class ▪ Low class Success ▪ Elite	7

Branding Conti......	Style	▪ Thirst quencher ▪ Healthy drink ▪ Class association	6a. 7, 10a, b.
	Design	▪ Technology ▪ Aesthetics (Use by famous personalities)	7
3. Packaging	Size	▪ Various sizes available ▪ Disposal (Bio-degradable)	7
	Shape	▪ Square shaped ▪ Cylindrical shape ▪ Others	7
	Color (bottle)	▪ Shade of Blue ▪ Clear bottle ▪ Green bottle	7
	Physical Structure	▪ Ease of holding ▪ Ease of use (Sports caps)	7
4. Positioning	Psychological Positioning	▪ Top of mind ▪ Target market ▪ Thirst quencher ▪ Health drink	7, 10
	Real Positioning	▪ Price appeal ▪ Snob appeal	7
5. Distribution	Availability	▪ All retail outlets ▪ Office to office delivery	7
	Point of Need	▪ Water dispensers ▪ Vending Machines	7

6. Pricing	Penetrative pricing	▪ Low price per liter	7
	Price Skimming	▪ High price per liter	7
7. Promotion	Advertising	Media ▪ Television ▪ Outdoor ▪ Radio	7
	Personal Selling	Use of salespersons ▪ Van salespeople ▪ Independent stockiest	7, 11
	Sales Promotions	Give-away ▪ Special offers ▪ Discounts ▪ Special events	7
	Price	Product pricing ▪ Special price ▪ Quantity-Discounts	7,11

3.5 Data analysis

Descriptive statistics was used to analyze the data given that the study was modeled on a descriptive survey. Data on part A and B of the questionnaire was analyzed using frequencies and percentages, while the Likert type scale was used for part C. In order to determine the extent of application of product differentiation strategies used, mean scores and standard deviations was used to analyze the data. To establish if differences exist between small, medium, and large firms, mean scores was used. Frequencies and percentages was used to analyze the data on the factors that may influence the choice of differentiation strategies. According to Central Bureau of Statistics (1999), small firms have below 10 employees, medium firms between 10 to 100 employees and large firms have over 100 employees. All the analyzed data was presented using tables and charts.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter contains summaries of the data that was collected together with the findings on various issues. Information was obtained from 30 water bottling firms operating within Nairobi city and it's environs. This chapter has been presented in three parts as per the questionnaire utilized during the study. Though the first part is not related to the objectives put forth for study, it was however relevant in that it provides useful general information that can help to clearly understand and draw conclusive meanings from the findings presented.

The second part, is presented using descriptive statistics of tables, frequencies and percentages and attempts to address the first and second objectives of the study. This area attempts to establish the use of product differentiation strategies utilized by the various firms. Third part of the presentation attempts to bring out the issues considered important in product differentiation strategy selection.

4.2 General information on respondents demographic profile

4.2.1 Number of years firms have been in operations

The background information sought to establish how long the business has been in operation. The age of the enterprise is an important indicator of the stage of life cycle of the industry and provides an insight into the firm's learning curve.

Table: 4.1 Number of years firms have been in operation

Number of years of operations	Frequency	Percent
1-5 yrs	14	46.7
6-10 yrs	5	16.7
11-15 yrs	6	20.0
16-20 yrs	4	13.3
Over 20 yrs	1	3.3
Total	**30**	**100.0**

Source: Research Data

According to the table 4.1 approximately 46.7% of firms have been in operation for between 1 to 5 years. This number represents almost half of the total population studied. Only one firm has been in operation for more than 20 years. The findings in table 4.1 further gives credit to the fact that water bottling industry is still at its early stages of development in this country. The industry can be said to be at the introductory/growth phase of the life cycle.

4.2.2 Nature of firms ownership

In the attempt to establish ownership patterns of these firms, the study revealed that most firms were privately owned. As stipulated on table 4.2; 93.3% of the companies have local ownership and only 6.7% have both local and foreign ownership.

Table: 4.2 Ownership of firms

Ownership	Frequency	Percentage
Local ownership	28	93.3
Foreign ownership	0	0.0
Hybrid of local and foreign	2	6.7
Totals	**30**	**100.0**

Source: Research Data

4.2.3 Number of employees

Human resources capacity of an enterprise reflects it's general characteristics and operations. Comparisons have been made on table 4.3 of both permanent and temporary employees that firms maintained. It was revealed that majority of firms engaged 6 employees on a permanent basis while the rest were casuals. Findings showed that the most common number of workers engaged by firms on casuals basis numbered 3 workers. Table 4.3.1 shows the number of permanent staff that firms have engaged. The minimum number of permanent employees was 2 persons, while a maximum of 145 people represents the highest number of permanent employees as per table 4.3.

Table: 4.3 Statistics of permanent versus causal workers

Statistics	Permanent employees	Casuals workers
Mean	35.44	20.14
Median	21.00	6.00
Mode	6.00	3.00
Std. Deviation	41.60	23.59

Source: Research Data

Table: 4.3.1 Permanent employees

Numbers of Employees	Number of firms	Percent
1-10	12	40.0
21-30	5	16.7
31-40	2	6.7
Over 50	6	20.0
Non response	3	10.0
Total	**30**	**100.0**

Source: Research Data

Respondents stated during this study that they preferred to maintain workers on casual basis. They asserted that it helps in cutting down costs of personnel management amongst other issues. From table 4.3.1 majority of firms had between 1 to 10 workers on permanent basis representing 40% of the population studied. While 6 firms had over 50 employees engaged on permanent basis. Only 5 firms had between 21 to 30 employees. About 10% of firms; approximately 3 firms did not wish to reveal the number their permanent employees.

firms; approximately 3 firms did not wish to reveal the number their permanent employees.

Table: 4.3.2 Employees working as casuals

Number of casual employees	Number of firms	Percent
1-10	19	63.3
41-50	7	23.3
Over 50	2	6.7
Non response	2	6.7
Total	**30**	**100.0**

Source: Research Data

As shown on table 4.3.2 most firms hired between 1 to 10 workers on casual basis, this represents a total of 63.3% of firms studied. According to table 4.3 on an average 20 workers were engaged on casual basis at any one time. However results on the same table shows that the average mean for permanent workers was higher at approximately 36 workers. This puts to test the earlier assertion by respondents that it was costly to maintain permanent workers as opposed to casuals. It is evident that firms still prefer to have workers on permanent terms. This maybe attributed to the level of training required for maintenance of standards by these workers in the factories. Taking specialization into consideration, firms may not want to loose their workers due to the high cost of workers training in food handling.

4.2.4 Firms involvement in other businesses

Further, with respect to product diversification this study established that firms engaged in other businesses. As listed in table 4.4 an average of 73.3% of firms indicated that they were involved in other business and only 26.7% were purely engaged in water bottling.

Table: 4.4 Involvement in other business

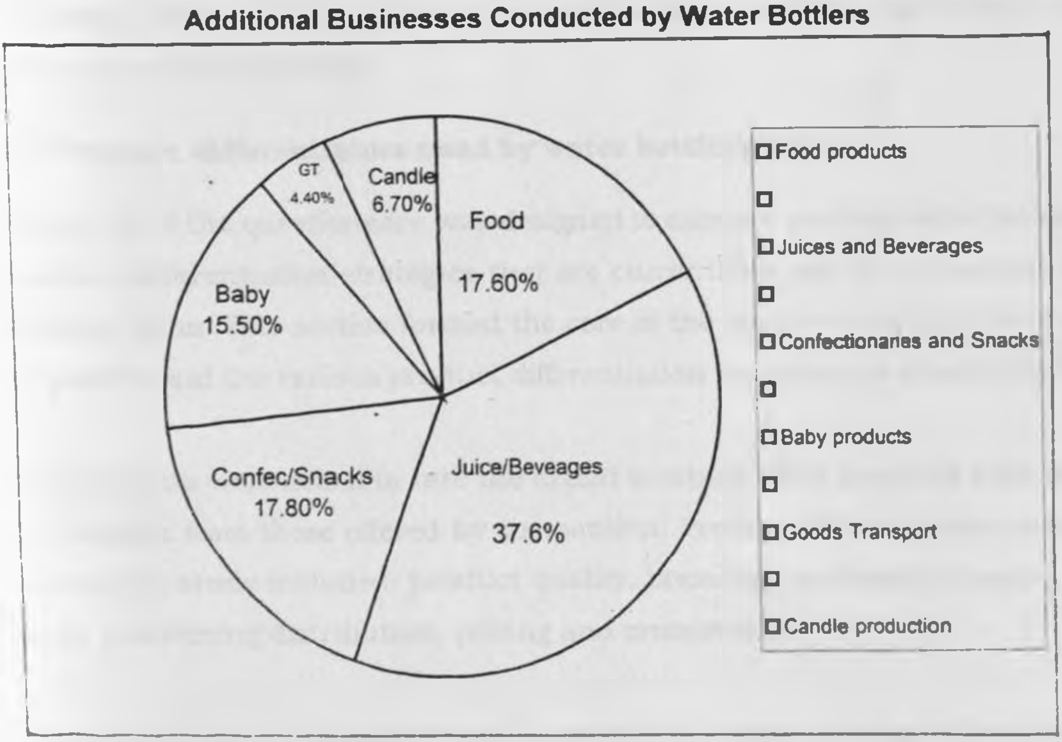
Response	Number of firms	Percent
Yes	22	73.3
No	8	26.7
Totals	**30**	**100.0**

Source: Research Data

Respondents listed additional businesses that their firms engaged in. Some of the businesses were closely related to packaging of water while others were completely unrelated. To ease analysis these businesses were categorized in different groups. According to pie chart 1, the processing and packaging of juices and beverages was the most popular side business done by 37.6% of firms. Followed by food products that comprised of milk and milk products, glucose, tomato sauce at 17.6%. The least popular side business was goods transport at 4.4%.

Chart 1

Additional Businesses Conducted by Water Bottlers



Source: Reasearch Data

Pie chart 1, shows diversity in product range amongst water bottlers.

4.2.5 Categorising water as a product

The respondents were requested to categories water as a product, and the results obtained were highlighted in table 4.5.

Table: 4.5 Category of water as products

Categories	Frequency	Percentage Of responses	Percentage of respondents
Beverages	8	23.5	26.7
Drink	6	17.6	20.0
Refresher	13	38.2	43.3
Thirst quencher	7	20.6	23.3
Total responses	**34**	**100.0**	

Source: Research Data

A high number of the respondents, 38.2% viewed water as refreshers. Comprising of 43.3% of the responses. An average of 23.5% viewed water as a beverage. Only 17.6% considered water as a drink and the rest 20.6% viewed water as a thirst quencher.

4.3 Product differentiators used by water bottling firms

Section B of the questionnare was designed to capture and highlight the various product differentiation strategies that are currently in use by the various water bottling firms. This section formed the core of the study as attempts were made to understand the various product differentiation manoeuvres adapted by firms.

Respondents were asked to rate the extent to which their products were unique or different from those offered by competition. Product differentiators examined during the study included, product quality, branding, packaging, design, color, style, positioning distribution, pricing and promotions.

Mean scores were extensively used to record the extent of usage of strategies by the firms. Rating was made on a five point Likert scale where 5 represents "to a very large extent" and 1 "to no extent". A mean score of > 4.50 means that the differentiator, was used to a very large extent, between 3.50 and 4.49 means that the differentiator was used to a large extent, between 2.50 and 3.49 means the differentiator was less significant and was used to some extent, between 1.50 and 2.49 means the differentiator was used to a small extent, while a score of between 0 and 1.45 means the differentiator was not significant and was used to no extent. The responses for each aspect of the product differentiation dimensions considered are presented in this section. A standard deviation of >1.00 indicates a significant difference in responses obtained.

4.3.1 Product as a differentiator

Table: 4.6 Differentiation using the product

Product Variables	Mean	Standard deviation
Quality		
▪ Meeting KBS Standards	4.93	0.254
▪ Government Chemist	4.20	1.495
▪ Diamond Mark of quality	2.73	1.946
▪ International Standards	4.43	1.136
Nature of product		
▪ Shelf life of product	2.83	1.487
▪ Still water	4.00	1.576
▪ Sparkling water	1.54	1.303
▪ Mineral water	2.60	1.812
Source of water		
▪ Underground	3.07	1.982
▪ Surface water	3.21	1.853

Source: Research Data

As listed on table 4.6, in addressing quality as a product differentiator, Kenya Bureau of Standards conformance by firms had the highest mean score of 4.93. This indicates that the variable was used to a very large extent as a quality differentiator by all firms. The standard deviation stood at 0.254 implying that the variance was small, therefore the scores were close together. Diamond mark of quality had the lowest mean score of 2.73 in this category, meaning that it was used only to some extent as a quality differentiator by most firms. The standard deviation stood at 1.946 indicating a significant difference in responses obtained.

International standards was used to a very large extent as a differentiators. However it was noted during the research that though most firms claimed that they conformed to international standards most of them had no evidence to support their claim. Only four firms produced documentation to prove their accreditations by international institutes (British Bottlers Institute certificates, Bureau Varitas and Societe General de Surveillance S.A guidelines and so forth. This should however, not be construed to mean that the local products are of lower quality in anyway. It was noted that standards were indeed maintained according to local guidelines that are blue-prints of international standards.

Nature of product offering as a product differentiator had a focus on "still water" which refers to the normal bottled water available for sale. "Still water" had a mean score of 4.00 indicating that it was used to a large extent as a differentiator. On the other hand "sparkling water" which is carbonated to give it fizzy taste and appearance had a low mean score of 1.54 thus it was used only to a small extent as a differentiator.

Water source was used to some extent as a differentiator. Underground water source had a mean score of 3.07 implying that it was used only to some extent. Whereas the surface water mean score stood at 3.21, this indicates that it was also utilized to some extent as a product differentiator.

Table: 4.7 Branding differentiators

Branding	Mean	Standard deviation
Brand Name		
▪ Top of mind	4.30	0.702
▪ Easily remembered	4.57	0.626
Brand Association		
▪ High class	3.62	1.813
▪ Middle	3.71	1.697
▪ Low	3.31	1.806
Style		
▪ Thirst quencher	4.12	1.107
Design		
▪ Technology	4.23	0.817
▪		

Source: Research Data

It was observed that all the products we came across had specific brand names. Therefore, product branding was uniform amongst all firms, and every product had its own unique identifiable brand name. As noted in table 4.7 respondents stated that to a large extent the brand names were used as product differentiators. A mean score of 4.30 was recorded for brands that were top of mind for consumers. Ease of remembering the brand name was considered to a very large extent as an important differentiator with a score of 4.57. The standard deviation for these two variable were also less than 1, meaning that the differences in responses were not significant.

Respondents interviewed did not show much concern for class association with bottled water. This was evident in the outcome, it showed class association being utilized only to some extent with some brands such as carbonated water (sparkling water) as a product differentiators.

Product presentation style as a thirst quencher was utilized to a large extent as a differentiator of water from other beverages such as juice, soda and so forth.

While the use of latest production technology, was utilized to a large extent as a product differentiator. Better technology transforms to better performance, and more efficiency that is a reflection of high quality. This study discovered that larger firms made it a point to strongly highlight their technological advancement. The medium and small firms took liberty to show that arrangements were in place to either improve or modify the existing technology or acquire new technology to adapt to the changing consumer trends.

Table: 4.8 Packaging differentiators

Product Packaging	Mean	Standard deviation
Offered in different sizes	4.07	1.285
Size		
▪ 300ml	4.30	1.368
▪ 500ml	4.60	1.037
▪ 1L	4.47	1.106
▪ 1.5L	4.20	1.243
▪ 3L	2.64	1.948
▪ 5L	4.03	1.351
▪ 10L	3.97	1.608
▪ 20L(18.9L)	4.00	1.532
Shape		
▪ Square	3.46	1.985
▪ Cylindrical	3.43	1.814
Color		
▪ Shade of blue	4.63	0.809
▪ Clear bottle	1.86	1.552
Physical structure		
▪ Ease of holding	4.87	0.346
▪ Sports caps	2.43	1.870

Source: Research Data

Product packaging communicates a great deal to potential consumers. Purchase decisions, are significantly influenced by product packaging. As noted on table 4.8 different sizes was used to a large extent as a product differentiators with a mean score of 4.07. The most popular size was the 500ml water bottles with a score of 4.60. The least popular size on offer was the 3liter with a mean score of 2.64. The 20liter or 18.9liter was to a large extent considered a major differentiator in terms of target consumers (Bulk consumers).

Bottle color was used only to some extent as a differentiator, so was bottle shape. The color shade of blue for the bottle was more popular amongst the water bottlers. Locally this was the preferred color for water bottles. Whereas the clear water bottle was used to a small extent as a differentiator.

Ease of holding the water bottle was to a very large extent considered as an important differentiator. And the use of sports caps was used to a small extent as a differentiator. This was attributed to its high cost that had to be borne by the consumer.

Table: 4.9 Differentiating through positioning

Product Positioning	Mean	Standard deviation
Psychological positioning		
▪ Top of mind	4.30	0.702
▪ Specific Target	2.15	1.287
▪ Thirst Quencher	4.12	1.107
Real positioning		
▪ Price appeal	4.79	0.418
▪ Snob appeal (Elite social class)	2.80	1.627

Source: Research Data

Price appeal as per table 4.9 was considered to a very large extent as an important product differentiator. Respondents viewed it as a tool that assists in positioning of the product in consumers mind. The standard deviation for price was significantly indicating that the general feedback was not as varied.

This study established that firms stirred away from targeting specific markets with their brands and preferred to offer products serve the entire market. Maybe because of this phenomenon positioning as per specific target market only managed a mean score of 2.15. Similarly the snob appeal positioning was used to a small extent, with specific brands.

Table: 4.10 Distribution as a differentiation strategy

Distribution Strategy	Mean	Standard deviation
Availability		
▪ All retail outlets	3.37	1.245
▪ Office to office delivery	3.30	1.685
Point of need		
▪ Water dispensers	3.39	1.833
▪ Vending Machines	1.67	1.155

Source: Research Data

Distribution strategies of availing the product in all retail outlets and conducting office to office deliveries were used to some extent as differentiators, as noted in table 4.10. Respondents claimed that personalized deliveries gave them an edge over competition it terms of relational marketing and confidence building.

Provision of water dispensers was utilized to some extent as a differentiator. Vending machines services was very limited and thus utilized only to a small extent as a differentiator. Respondents claimed that the technology was still very alien in this region and would take sometime before it's fully embraced.

Table: 4.11 Differentiation through pricing strategies

Pricing Strategies	Mean	Standard deviation
Penetrative pricing		
• Low price	3.68	1.335
Price skimming		
• High Price	2.13	1.279

Source: Research Data

Going by information on table 4.11 penetrative pricing strategy was used to a large extent as a product differentiator. It was noted during the study that price was of great concern when consumers undertook purchase decision. So much so that firms opted to develop different brands some of which were lowly priced. This was done with the aim of appealing to the price sensitive consumers.

However price skimming was applied to a small extent as a differentiator. Only specific brands of bottled water were highly priced targeting consumers on the high-end market.

Researchers noted that brands of carbonated water (sparkling water) and flavored water (strawberry, lemon amongst others) were highly priced and only few firms actually specialized in their production. These firms also differentiated themselves on the basis of these unique formulations.

Table: 4.12 Differentiating through Promotion

Promotions Elements	Mean	Standard deviation
Advertising		
▪ Television	1.60	1.163
▪ Outdoor	2.83	1.663
▪ Radio	2.73	1.552
Personal selling		
▪ Salespeople	3.80	1.627
▪ Independent stockiest	2.63	1.326
Sales promotions		
▪ Special offers	3.20	1.424
▪ Discounts	3.27	1.437
PR/Publicity		
▪ Special events	3.17	1.663

Source: Research Data

The significance of marketing communication can never be underestimated. However researcher noted that within the water bottling firms promotions as a product differentiator was on average only used to some extent. Promotions elements such as television advertising were utilized to a small extent only by large firms. Small firms reported no use of television in their communication process. They sited its' high cost as being prohibitive.

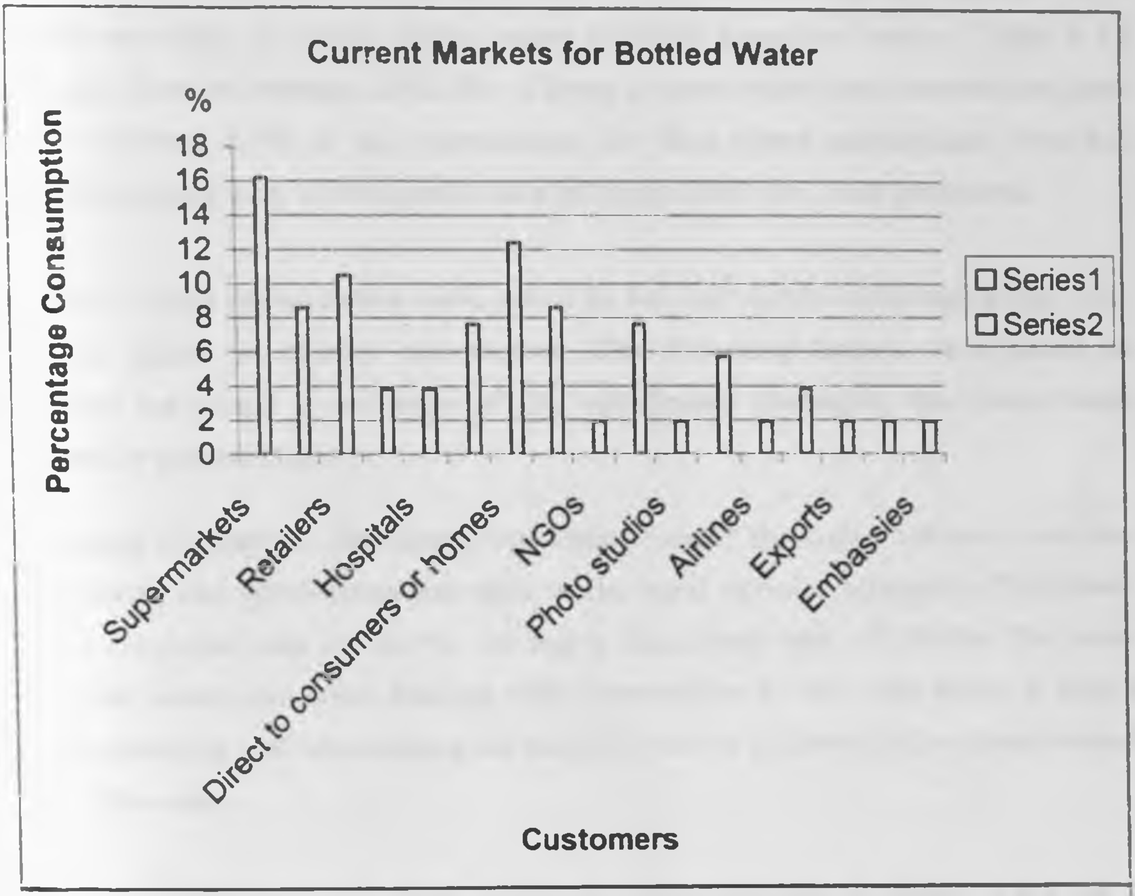
Outdoor advertising (billboards, motorcar brandings and so forth) was used to some extent. Large firms reported the use of billboards while the medium and small firms did utilize motorcar branding largely as opposed to erection of billboards. Similarly the use of radio advertising was also engaged to some extent across the industry.

It was noted that like other manufacturing entities water bottling firms had heavy reliance on personal selling. Salespeople were given the mandate to promote and sell the various brands. Therefore the use of sale-persons as a differentiator was the popular with a mean score of 3.80 implying that it was utilized to a large extent by most firms. This maybe attributed to the young age of industry in this region and therefore personal selling plays a major role in moving the products from the factory to the consumer.

4.3.2 Bottled water targeted consumers

Supermarkets and direct consumers and homes were the largest single customers for bottled water as noted on graph 1. Supermarket had an average consumption of 16.2% of total market, while homes had 12.4% consumption levels. The export market only consumed an average of 1.9%, this indicates that the export market for Kenyan bottled water was still underdeveloped.

Graph: 1 Target market for bottled water



Source: Research Data

4.3.3 Managing competition

Table: 4.13 Response as per competition

Responses	**Firms**	**Percentage**
Yes	28	93.3
No	2	6.7
Totals	**30**	**100.0**

Source: Research Data

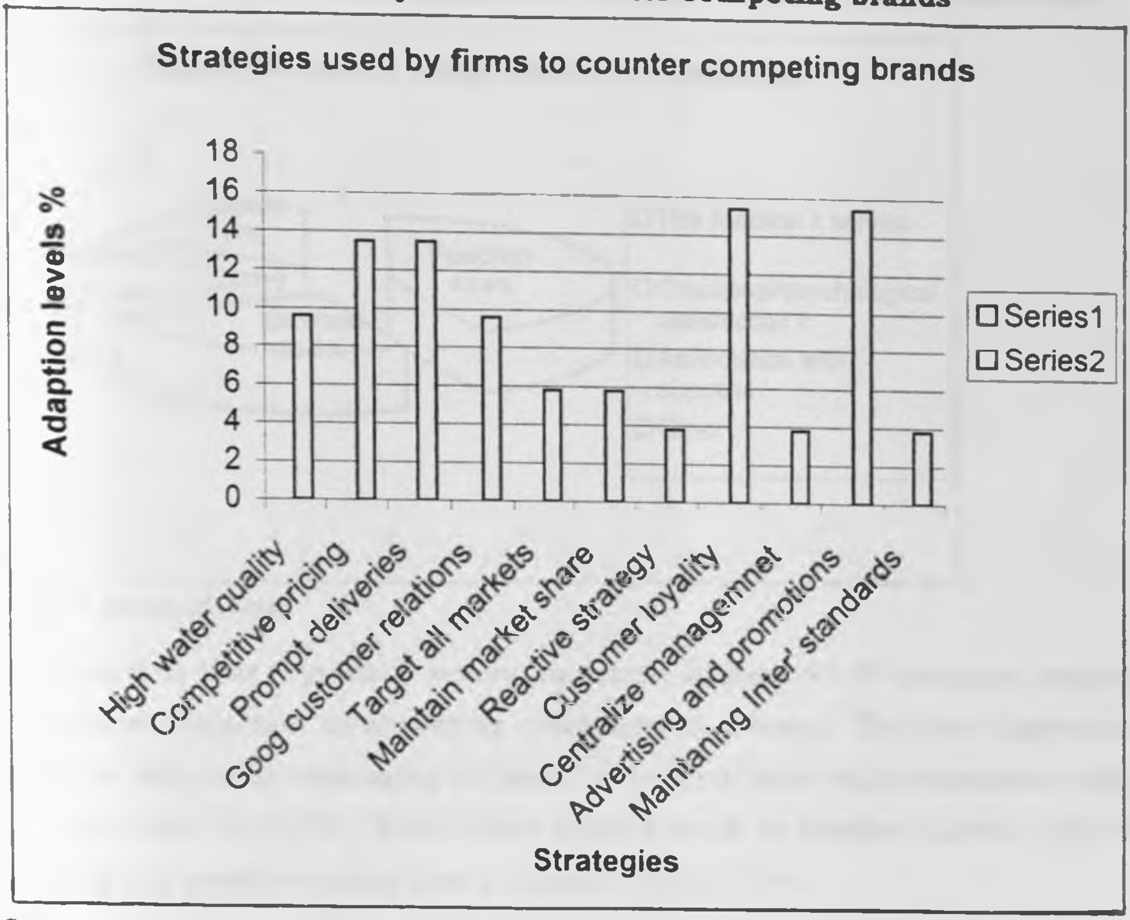
When respondents were asked about competition, they acknowledged that competition exists and was healthy so long as it was fair. This statement was made in reference to the fact that firms believed that the regulatory bodies were not strict on remittance of water duty and value added tax. Respondents expressed dissatisfaction that some firms were not remitting taxes and for this reason were able to charge lower prices for their brands of water. Table 4.13 indicates that an average of 93.3% of firms acknowledge that competition does exist. However 6.7% of the respondents felt that direct competition does not exist since they only serve specific market segments with their products.

Further to this respondents were asked to list the various strategies that they have in place to counter competition. The following factors were noted as recorded on graph 2 as some of the significant strategies that were being utilized by various firms.

According to graph 2, Creation of customer loyalty through customer care and advertising and promotions emerged as the most popular strategies. They each had a response rate of 15.4%, having a combined total of 30.8%. The least attractive strategies were dealing with competition at the time when it comes (being reactive) and centralizing all the activities at the head office these scored only 3.8% each.

Notably maintenance of high water quality managed to score 9.6% as a competitive strategy, this was much lower than competitive pricing and prompt delivery that scored 13.5% in-terms of preference as strategies.

Graph: 2 Strategies used by firms to counter competing brands

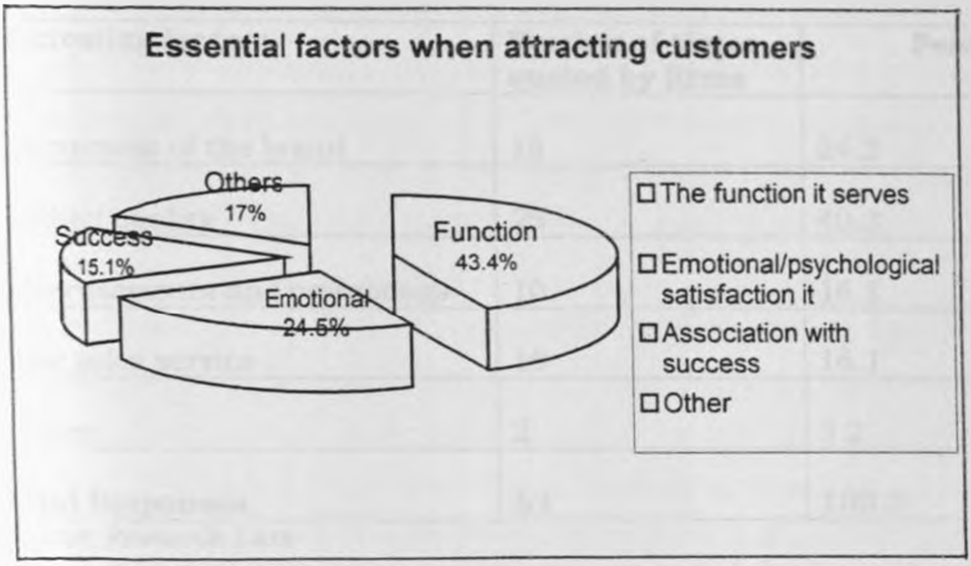


Source: Research Data

4.3.4 Factors considered important when attracting customers

An enterprise success and survival is greatly determined by the rate at which its products are able to attract and retain customers. According to pie chart 2, respondents when attracting customers to a particular brand of bottled water considered the following factors to be important.

Pie Chart: 2 Essential factors when attracting customer for bottled water



Source: Research Data

The function that a product serves was rated highest 43.4% amongst factors considered important in attracting customers to a brand. The least important factor in attracting customers to brand of bottled water was association with success rated at 15.1%. While other factors such as product tastes, type of packing and product quality had a response rate of 17%.

4.3.5 Motivators leading to customer loyalty

Respondents were further asked to state factors they considered important in maintaining customer loyalty. According to table 4.14, product quality was considered an important factor that motivated customers to remain loyal to a specific brand of bottled water. The response rate was 40.3% representing 83.8% of the cases. The uniqueness of the brand had a score of 24.2% whereas other motivating factors were considered the as least motivating such as customer satisfaction had a response rate of 3.2%.

Table: 4.14 Factors motivating customers to remain loyal to the brand

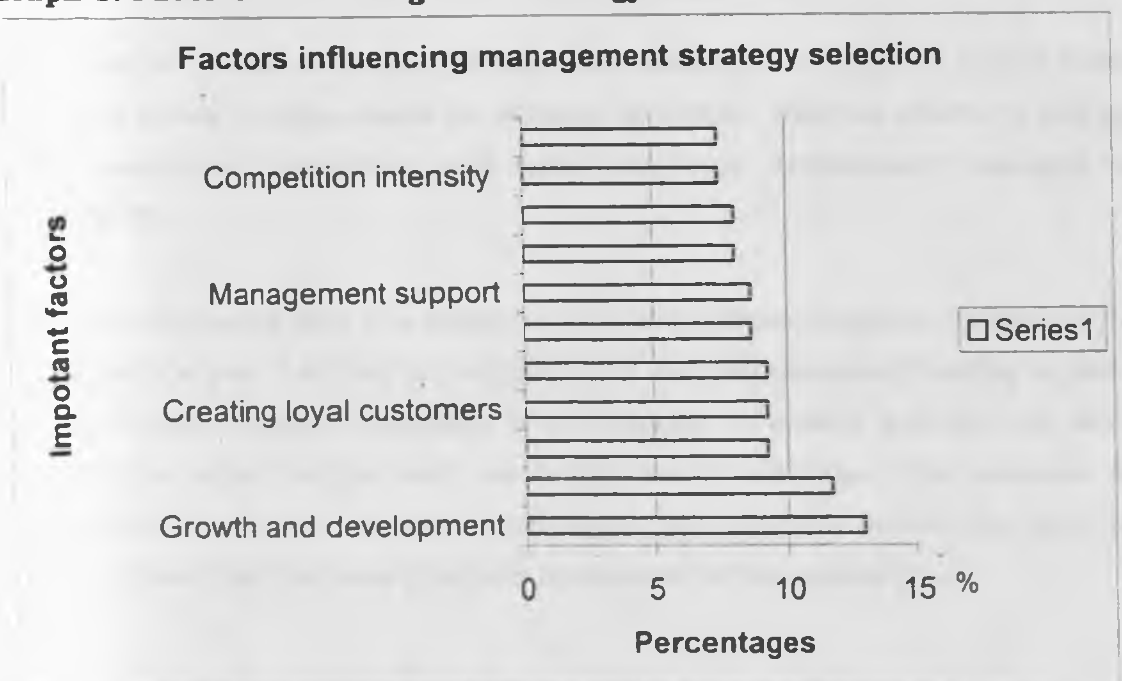
Motivating factors	Number of times quoted by firms	Percentage
Uniqueness of the brand	15	24.2
Product quality	25	40.3
Advertisements and promotions	10	16.1
After sales service	10	16.1
Others	2	3.2
Total Responses	**62**	**100.0**

Source: Research Data

4.4 Important influencers of strategy selection

As noted in graph 3, the respondents were requested to highlight factors that they considered important in strategy selection. This was a multiple response question and the respondents were at liberty to select several factors that they considered applicable to them.

Graph 3: Factors influencing firms strategy selection



Source: Research Data

To finalize the researchers sought to establish factors that were considered important in the selection of strategies in firms. Therefore as highlighted on graph 3 based on respondents feedback. It was noted that future growth and development was considered the most important strategy-influencing factor with a score of 12.9%. 21 firms selected it. This was followed by maintenance of market share with a count of 19 firms and a score of 11.7%.

Strangely security against counterfeit had a count of 12 representing 7.4%. This was contrary to the belief that bottled water counterfeits were available in the market. Respondents categorically denied claims that counterfeits were a problem in this market. However firms were being proactive by putting certain measures in place. These include the incorporation of product branded security seals on each bottle amongst others.

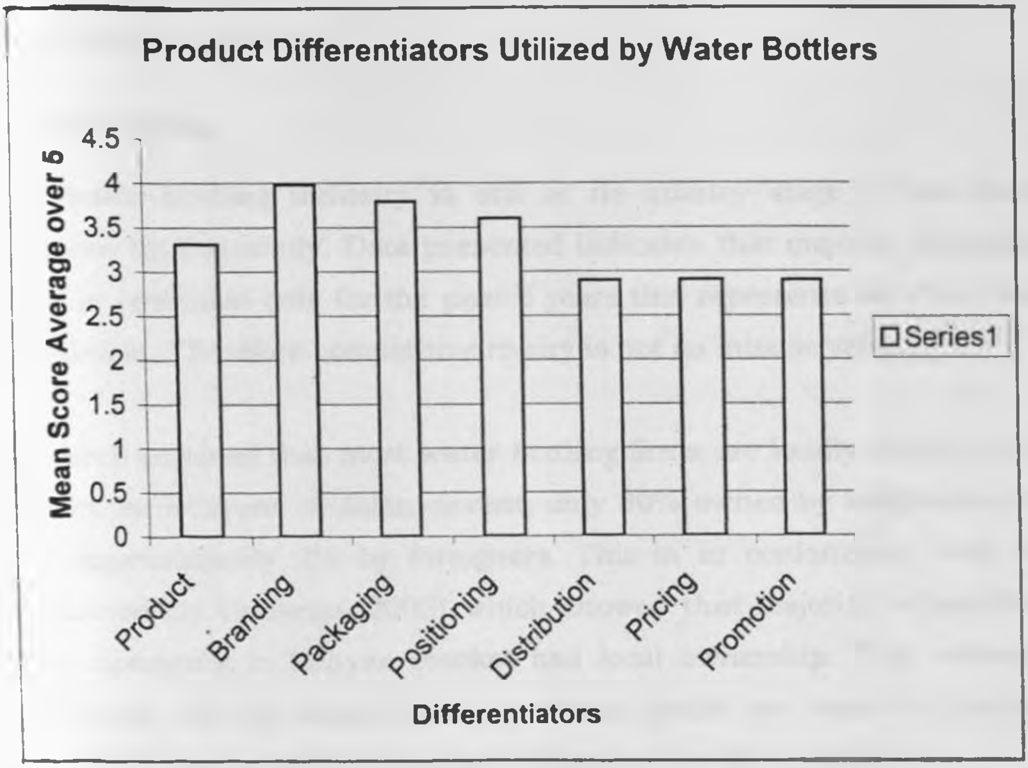
As if to confirm that competition was still not a major threat within the industry, competition intensity was rated at 7.4% as an influencer of strategy selection. Factors such as marketing budget available, creation of loyal customers and maintenance of position in the market were viewed more favorably by respondents with a score of 9.2% each.

The need to create a unique product and management support scored 8.6% each, in terms of importance in strategy selection. Whereas efforts to put in place non-price competition and brand extension development managed to score 8.0%.

From the foregoing data it is apparent that institutional frameworks have to be set in such a way that they are supportive of various strategies. Having in place product differentiation strategies is not enough to ensure success. We have noted that other factors such as target market selection, the presence of competition, customer attraction and loyalty are inherent factors that have to be considered for the firms products to succeed in the market place.

All the necessary aspects of product differentiations need to be taken into consideration. For example it was noted during the research that no firm had allocated itself a time frame within which the product differentiators were to be developed, launched and re-launched. It was also discovered that firms did not have in place benchmarks with which they could measure the success rate or failures of the various product differentiators. These are pertinent issues that need to be addressed by water bottling firms as a matter of urgency.

Graph: 4 Summary of product differentiators



Source: Research data

As summarized on graph 4 the differentiator that were used to a large extent were the branding differentiators. Followed by packaging and product positioning differentiators that were utilized to a large extent. The product differentiators managed to score an average mean of 3.31 over a possible 5, indicating that it was used to some extent as a differentiator. This lends credit to an earlier insinuation that product quality even though important, is not absolute. This only goes to show that consumers make their bottled water purchase decision based on other factors other than quality.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings of the study. Following the results obtained from the survey guided by the set objectives of the study, discussions and conclusions implied have been documented. Recommendations and suggestions were made that would be of particular interest to players in water bottling industry, consumers and scholars as well. Areas for further research have also been outlined.

5.2 Discussion

The water bottling industry is still at its infancy stage in this market as evidence by this study. Data presented indicates that majority of players have been in operation only for the past 5 years this represents 46.7% of the study population. Therefore competitive rivalry is not as intense yet.

Research revealed that most water-bottling firms are locally owned, an average of 68% by Kenyans of Asian decent, only 30% owned by indigenous Kenyans and approximately 2% by foreigners. This is in conformance with a study conducted by Onyango (2003) which showed that majority of manufacturing firms operating in Kenyan market had local ownership. This revelation was significant, in that most locally produced goods are made by Kenyans and indeed the market is no longer fully reliant on foreign producers.

Additionally it was discovered during the research that water-bottling firms are engaged in other business activities. This was assumed to be part of strategic diversification process or firms were simply being risk averse. A total of 73.3% of businesses embraced additional businesses, the commonest of them being the processing of juices and other beverages commanding a total of 37.6%. Wangari (2005) in her studies had noted that juices were the single most threatening substitute to bottled water. This may explain why most water tlers began processing juice in a bid to retain some market share and nage competition.

ater-bottlers adaptation of product differentiation strategies as a competitive ol, has had diverse effects on the firms products. Firms that practiced all pects of product differentiations boosted of better sales. Product branding fferentiators emerged as most preferred group differentiator. On the other and differentiation using the product parameters such as quality was ositioned fourth overall amongst the preferred differentiators.

ne researchers noted that conformance with the Kenya Bureau of standards as n individual quality differentiator had the highest mean score of 4.93 against a aximum of 5. The findings tally with results of studies conducted by Muchira 2005) that firms highly differentiate themselves through quality performance. These observations go against findings by Mburu (2001) who rated product quality 5th in order of priority when customers were making a choice of soft drink to consume. Other factors such as product function stood out as major nfluencers. In our study product function had a rating of 43.4% of the response representing 76.6% of cases. This fact is in liaison with Mburu's (2001) studies, who's findings showed that respondents were attracted to their soft drinks simply by the function it served, and other variables were secondary.

Our findings on product quality were almost a reflection of those discovered by Mburu (2001). We found out that maintenance of high water quality was not a priority when developing counter strategies. Respondents rated it 3rd in order of importance against other factors.

On the overall product pricing emerged as a significant differentiator, these findings were compared to observations made by Muchira (2005) that referred to the ability of firms being able to charge a price premium for differentiated security services. Medium and small firms, utilized penetrative pricing strategies to a large extent to gain market entry. This was evident in their product distribution patterns that tended to focus on certain parts of the city estate, which were generally classified as middle class and upper low class.

On an average, channel differentiation strategies were used to a small some extent by firms. Similarly Muchira (2005) in his studies discovered that channel differentiation strategies in the security industry was used only to some extent. It appears that channel strategies were not given priority by most firms. Our findings revealed that factors such as customer care and prompt delivery of goods rated highly across firms with combined scores of 28.9% representing 53.6% of the cases investigated.

Differentiation strategies focusing on product promotions according to this study appears to be used to some extent. The average mean score for promotion as a differentiation strategy was 2.90 against a possible total of 5. From the various elements of promotions, personal selling stood out with a mean score of 3.80 meaning that most firms used it to a large extent. Advertising on television and radio rated poorly at 1.163, 1.552 respectively. The poor ratings were attributed to high cost of advertising.

Financial strength of the enterprise emerged as a major determinant for the choice of product differentiation strategies. This was demonstrated by the fact that large firms engaged in varied product differentiation strategies. Whereas, medium and small firms practiced limited product differentiation strategies often focusing on penetrative pricing. This was attributed to financial constraint and a limited marketing budget as was expressed by these firms. It was noted that target market selection to some extent dictated the type of product differentiation strategy to be utilized. For example the use of vending machine was limited to a specific niche, similarly provision of water dispensers was a reserve for the few who could afford.

5.3 Conclusion

This study has shown that there are attempts being made by firms in the water bottling industry to differentiate their brands from each other. This is in line with the first objective of this study.

It was also established that each brand of bottled water had it's own loyal customers. Preference for specific brands by consumers was influenced by the extent of product differentiation strategies engaged by the various firms.

Consumers tended to believe what they were told by manufacturers through the various mediums especially when regulating bodies have endorsed the same. Therefore firms that exercised product differentiation strategies while adequately utilizing marketing communication were more likely to attract customers and retain them.

With reference to the second and the third objective. It was established that differences in product differentiation strategy application did exist between the Large, medium and small firms. Large firms tended to focus more on capital-intensive product differentiators such as investments in state of the art technology, promotions and so forth. While, medium and small firms limited themselves to low budget differentiators such as use of independent product distributors, penetrative pricing strategies amongst others. Financial strength was identified as a major influencer of product differentiation strategy selection.

Lastly as evidenced during the study it was established that shifting customer loyalty from one brand to another was difficult and that most firms have maintained the same customers for as long as they have been in business. This was especially the case with customers for the large water containers that is, the 18.9liter bottles. These customers either purchased or rented the bottles from specific water bottlers and were therefore in some kind of binding agreement.

5.4 Recommendations

In line with the foregoing discussions it was established that there was a disquiet amongst water bottlers. The borne of contention was the unregistered water bottling firms. Opinions were expressed especially by medium and small firms that these firms were not paying the mandatory taxes. These include value added tax which is 16% of sales value and excise duty which is 10% of bottled water sales value.

We recommend that the regulartory bodies should investigate to establish if these allegations are indeed true or are just figments of imagination.

We also recommend that water bottling firms form a body with which they can identify with and put mechanisms in place so as to be self regulating. This will help in lobbying for favourable policies that will ensure they do not rely on the government to solve their issues.

5.5 Limitations of the study

During the study the researchers encountered several limitations. A large proportion of potential respondents 49% could not be accessed to anwers questions. Out of these 24% out-rightly refused to participate in the study, 15% never returned the questionnaire and 10 % had moved premises and could not be located for interview.

The time frame of four weeks within which the research was to be conducted proved to be very challenging in terms of detailed respondents coverage. A lot of time was spent trying to convince some respondents to participate in the study. We noted that 70% of the respondents were only willing to give information on condition that neither the names of their firms nor their brands would be mentioned in the report. This was unfortunate since it limited what we could mention in this report.

5.6 Suggestion for future research

From the foregoing, suggestions have been put forth for future research in similar and related field of product differentiation strategies utilized by food processing firms and beverage bottlers. This we believe will target a wider scope and will be rich in information.

Specifically we would recommend for a study focusing on all the areas of company differentiation and not just product differentiation strategies. Further research is also suggested that would cover the entire water bottling industry in the country.

Finally we recommend that in future potential respondents be educated on the importance of research studies so that they may give information without fear of any victimization. This may be time consuming, however its significance cannot be underestimated. It is important for respondents to understand that the information gathered is not just beneficial to the researchers but to the entire industry as well.

Reference

Aaker, Batra, and Myers, (2002), **Advertising Management** 5th edition New Delhi Pretence hall.

Barrell, and Hunters G. N, (2000), **Microbiological Standard for Water and Their Relationship to Health Risk,** Communicable Diseases and Public Health, Volume No.1 March 2000.

Brue, Stanley, McConnell, Campbell, (2002) **Economics–Principles, Problems and Policies** (15th edition). Boston: Irvin/McGraw-Hill. pg. 437-438.

Central Bank of Kenya, (1992), **Economic Report for the Financial year ended 30th June 1992,** Government printers.

Central Bureau of Statistics, (1999), **Survey Report,** Government printers

Chartered Institute of Marketing, (1999), Study Text, **Strategic Marketing Management: Planning and Control,** and Published by BPP publishing limited London.

Chunawala, S. A. (2000), **Promotions Management,** Himalaya Publishing House: gayatri Offset Press India.

Churchill. A., Gilbert Jr. and Peter P. J, (1995), **Marketing, Creating Value for Customers,** Austen Press Richard D. Irwin, Inc.

Coughlan et al, (2001), **Marketing Channels 6th Edition**, Prentice Hall Inc Upper Saddle River, New Jersey pp 321.

Day, G., (1980), "Strategic Market Analysis: Top-down and bottom-up approaches", working paper No. 80-105, Marketing Science Institute, Cambridge. Mass. 1980.

Daily Nation Newspaper, (2006), "National, Water Ration plan in City as Drought bites": Friday 6th January pg.3.

Daily Nation Newspaper, (2006) : "Press Release, Water Shortage in Mombasa Municipality"; Wednesday 25th January pg.26.

Daily Nation Newspaper, (2006) : "Outlook Picture File": Monday 30th January pg.5.

Daily Nation Newspaper, (2006): "Vandalism": Saturday 4th February pg.7.

Donald et al, (1993), **International Business: Introduction and Essential 5th Edition,** IRWIN Burr Ridge, Illinois,Boston Massachusetts.

Financial Standard, (2006), Sector review, " Bottled Water; bottling firms cash in on consumer mistrust of tap water", Tuesday 14th February pg 22.

Ferrell, W. Robert, (1972), **Managing Opportunity,** American Management Association, Inc.

Grolier Business Library, (1987), **Fundamentals of Marketing** McGraw-Hill, Inc.

Gupta, Veena, (1981), **Scheduling and Control of Transport Labor Force and Material in Nairobi City Council Water Department,** Un-published MBA works University of Nairobi, East African collection.

Hellard et al, (2001), **A Randomized Blinded, Controlled Trial Investigating the Gastrointestinal Health effect of Drinking Water**, Department of Epidemiology and Preventive Medicine, Faculty of Medicine Monash University Melbourne Victoria Australia. Environmental Health Perspective Volume 109 No. 8 August 2001.

Kotler, P., (2003), **Marketing Management: Analysis, Planning, Implementation and Control,** 11th edition New Delhi Pretence hall.

Kenya Bureau of Standards, (1999), "Specifications for Drinking Water KS 05-459-1999 Pt 1 Revision of Kenya Standard", Published by Kenya Bureau of Standard (KEBS) Documentation and Information Center, Nairobi Kenya.

Kenya Revenue Authority, (2006) "Public Notice to Retail Outlets- Excisable Goods Manufacturing (Mineral Water/Juice/Soft drinks)", Daily Nation Newspaper Tuesday 31st January 2006.

Kisese, W. E., (2002), **The Determinants of Brand Equity in the Bottled Water Industry In Nairobi,** Un-published MBA works University of Nairobi, East African collection.

Loxley, J. and Campbell, (1989), **Structural Adjustment in Africa,** The Macmillan Press limited.

Makutsa et al, (2001), "Challenges in Implementation of a Point- of Use Water quality Intervention in Rural Kenya", October 1st 2001, 91 (10). CARE Kenya.

Mburu, Robert, (2001), **"The Impact of Perceived Quality on Brand Choice, The Case of Soft Drinks",** Un-published MBA works University of Nairobi, East African collection.

Muchira, J. M. M, (2005), **Differentiation Strategies Used by the Formal Private Security Industry in Kenya,** Un-published MBA works University of Nairobi, East African collection.

McKenna, R., (1988), "Marketing in the age of diversity", Harvard Business Review, vol 66, September-October, 1988.

Mugenda and Mugenda, (2003), **Research Methods, Quantitative & Qualitative Approaches**, Laba-Graphics Services Nairobi, and Acts Press.

National Development Plan 2002-2008 Republic of Kenya, **Effective Management for Sustainable Economic growth and Poverty Reduction**. Government printers.

Onyango, Omondi, T., (2003), **Industrial Restructuring: The case of Business Mergers in Kenya,** Un-published Master of Arts works University of Nairobi IDS collection.

Paliwoda, Stanley, (1993), **International Marketing,** 2nd Edition, Butterworth Heinemann.

Pearce, J. A. and Robinson, B. R., (2003), **Strategic Management, Strategy Formulation and Implementation,** A.I.T.B.S Publisher & Distributors . Ricahrd Irwin INC.

Pine, J., (1993), "Mass customizing products and services", Planning Review, vol 22, July-August, 1993.

Piana Valentino, (2003), "Product Differentiation", Economic WEB Institute. www.economicswebinstitute.org.

Porter, Michael, (1980), **Competitive Strategy, Techniques for Analysing Industries and Competitors,** The New York Free Press.

Retrieval from "http://en.wikipedia.org/wiki/Market_segment"

Schiffmman, L. G. and Kanuk, L., (2002), **Consumer Behavior** 7th Edition New Delhi Pretence Hall.

Standard Newspaper. (2006), 'News Features, The "Time Bomb" That is Nairobi" ,Saturday 28th January pg.16

Stanton, William J., (1997), **Fundamentals of Marketing,** Grolier Business Library: McGraw-Hill, Inc.

Thompson, and Strickland III, (1995), **Crafting and Implementing Strategy: What every Manager Should Know,** Richard IRWIN, INC.

Trade Policy Review Kenya, (1994), "The Report of General Agreement On Tariffs and Trade", Volume 1 Geneva February 1994.

Wangari, J. M., (2005), **Responses of Bottled Water Companies in Nairobi to The Threat of Substitute Products,** Un-published MBA works, University of Nairobi, East African collection.

Wagura, J. M., (1981), **Location of additional depots of Nairobi City Council Water Department,** Un-published MBA works East African Collection.

Yves, L., and Gary H., (1998), "Alliance Advantage: The Art of creating Value through Partnering", Harvard Business School Press Boston Massachusetts.

APPENDIX I

The variables used for segmentation include:

- Geographic Variables
  - region of the world or country
  - country size
  - climate
- Demographic Variables
  - age
  - gender
  - sexual orientation
  - family size
  - family life cycle
  - income
  - occupation
  - education
  - socioeconomic status
  - religion
  - nationality/race
- Psychographic Variables
  - personality
  - life style
  - values
  - attitudes
- Behavioural Variables
  - benefit sought
  - product usage rate
  - brand loyalty
  - product end use
  - readiness-to-buy stage
  - decision making unit

APPENDIX II

LETTER OF INTRODUCTION TO RESPONDENTS

University of Nairobi
School of Business
P.O. Box 30197
Nairobi

Dear Respondent,

COLLECTION OF SURVEY DATA

I am a postgraduate student at the University of Nairobi, at the School of Business. As a partial requirement to complete my degree programme, I am undertaking a management research on ***"Product differentiation strategies adopted by firms in the water bottling industry in Kenya"***

Your firm has been selected to form part of this study. This therefore, is to kindly request you to assist me collect data by filling out the accompanying questionnaire. The information provided will be exclusively for academic purposes and it will be treated with strict confidence, at no time will your name appear in my report.

Your cooperation is highly appreciated.

Yours faithfully

Achayo K.A
MBA Student

Ms. Margaret Ombok
Lecturer and Supervisor

APPENDIX III
QUESTIONNAIRE

Area Code No:……………..
Researchers Initials………

NOTE: This research is ***purely academic*** and any information gathered will be treated with strict confidence. ***Do not write your name*** on this document.
Your ***sincerity and truthfulness*** when responding to these questions will be highly appreciated.

PART A

General Information ***Please Tick (√) in brackets provided***

1.Name of company____

2. How many years has your company been in operation?_____________

3. What is the ownership of the company?

Local Ownership [ ] Foreign owned[ ] Hybrid of local and foreign[ ]

4.Number of Employees

(a) Permanent: ______________________ (b) Casuals:___________________________

5. a) Is your firm involved in any other business other than water bottling ? (Tick)

Yes[ ] No[ ]

b) If yes in a) above please list below:

1.________________________

2________________________

3________________________

4________________________

PART B

6.a) In which category of products would you place water? (Tick) √

i) Beverage [ ]
ii) Drink [ ]
iii) Refresher [ ]
iv) Thirst quencher [ ]
v) Any other(specify)________________________________

b) What brand names of water do you produce and sell?

1. ______________________________
2. ______________________________
3. ______________________________

7) Indicate the extent to which your company ensures that ***your product is unique or different*** from those offered by the competitors on a scale of 1-5, where:-

5 = to a very large extent,
4 = to a large extent,
3 = to some extent,
2 = to a small extent,
1 = to no extent

For each, tick only one box

Differentiators	**5**	**4**	**3**	**2**	**1**
We ensure that our product meets the Kenya Bureau of Standards (KBS) requirements.					
We have the Diamond Mark of quality from KBS.					
Our product meets the Government Chemist requirement.					
Our product meets International Standards					
Our water is from Underground Source.					
Our water is sourced from surface water					
The Shelf life of our water is longer than competitors					
Our product is Purified drinking water.					
Our product is Mineral drinking water					

Differentiators	5 very large extent	4 large extent	3 some extent	2 small extent	1 no extent
We pack Normal (Still) water					
We pack Carbonated Drinking Water.					
Our product has a unique brand name that Customers easily remember.					
We offer bottled drinking water for different classes of consumers:					
1. High Class					
2. Middle Class					
3. Low Class					
Our brand of water is associated with the Elite members of society					
Our brand of water is considered as a healthy drink alternative.					
Our brand of water is produced using the latest Technology					
Our Brand of water is offered in different sizes 1. 300ml					
2. 500ml					
3. 1Liter					
4. 1.5Liter					
5. 3Liter					
6. 5Liter					
7. 10Liter					
8. 20Liter					
Our brand of water is bottled in ▪ Square shaped bottle					
▪ Cylindrical bottle					
The color of our water bottle is ▪ Shade of Blue					
▪ Clear Bottle					
The type of bottle we use is easy to hold					
We use sports caps for our bottles to avoid water spillage when moving around.					

Differentiators	5 very large extent	4 large extent	3 some extent	2 small extent	1 no extent
Our brand of water is Top of mind When customers refer to bottled water.					
Our brand only targets specific target market.					
Our brand of water is viewed as a thirst quencher.					
Our Brand is priced to fit the consumer's pocket.					
Our Brand is highly priced.					
Our Brand is available in all retail outlets.					
We do conduct office to office deliveries.					
We provide water Dispensers for our corporate customers.					
We have provided Vending machines in public places to make our brand available.					
We utilize penetrative pricing strategy to capture new markets.					
We do advertise our brand of water.					
▪ Advertise on Television.					
▪ Use Outdoor advertising.					
▪ Use the Radio to advertise.					
We use salespeople to market our Brand.					
We use independent stockiest to promote our brand of water.					
We conduct sales promotions					
Offer Discounts					
Sponsor special events such as sports, outdoor activities, charity.					

8) Kindly list the target market for your brand of bottled water;

1. ______________________
2. ______________________
3. ______________________
4. ______________________
5. ______________________
6. ______________________

9). Is your firm currently experiencing competition from other brands of bottled water?

Yes[ ] No[ ]

b) If the answer is *yes* to the above, kindly explain what your firm is doing to counter the competing brands?

____

____

____

10 a). What in your view attracts customers to your brand of bottled water? (Tick √)

i) The function it serves [ ]
ii) Emotional /psychological satisfaction it gives them [ ]
iii) Association with success [ ]
iv) Any other (specify)________________________________

b) What has motivated your customer to remain loyal to the brand? (Tick) √

i) Uniqueness of the brand [ ]
ii) Product quality [ ]
iii) Advertisements and promotions [ ]
iv) After sales service [ ]
v) Any other (specify)________________________________

10 a) What in your view attracts customers to your brand of bottled water? (Tick √)

i)	The function it serves	[ ]
ii)	Emotional /psychological satisfaction it gives them	[ ]
iii)	Association with success	[ ]
iv)	Any other (specify)________________________________	

b) What has motivated your customer to remain loyal to the brand? (Tick) √

i)	Uniqueness of the brand	[ ]
ii)	Product quality	[ ]
iii)	Advertisements and promotions	[ ]
iv)	After sales service	[ ]
v)	Any other (specify)________________________________	

PART C

11). The following listed factors are important influencers of strategy selection, tick only once, against those factors that are relevant to your situation(√)

The need to create A unique product	[ ]
Competition Intensity	[ ]
The Marketing Budget Available	[ ]
Management support And decisions	[ ]
Efforts to create loyal Customers	[ ]
Effort to put in place Non-price competition	[ ]
Future Growth and development	[ ]
Security against counterfeits	[ ]
Development of Brand extension	[ ]
Maintenance of Market share	[ ]
Maintenance of Position in market	[ ]

Any other______________________________

____

____

THANK YOU FOR YOUR COOPERATION

Kenya Revenue Authority

PUBLIC NOTICE
TO ALL RETAIL OUTLETS

EXCISABLE GOODS MANUFACTURERS
(MINERAL WATER/JUICES/SOFT DRINKS & COSMETICS)

The following are licensed manufacturers of excisable goods.

All retail outlets are advised to purchase and stock the listed goods from the registered excise companies. Stockists should note that failure t[o] adhere to this instruction may result in seizure and forfeiture of goods to the Government.

EXCISE LICENCED MANUFACTURERS OF MINERAL WATER, JUICES, SOFT DRINKS & COSMETICS

1	ABERDARES SPRING WATER LTD	MIN. WATER
2	ABLUN FOOD CHEM. PRODUCTS	MIN. WATER/JUICES
3	AFRICAN SAFARI CLUB LTD	MIN. WATER
4	ALPINE COOLERS LTD	MIN. WATER
5	ADARSH DEVELOPERS LTD	MIN. WATER
6	ANNUM TRADING CO	MIN. WATER/JUICES
7	AQUAMIST LTD	MIN. WATER
8	AFRIKEN LIMITED	MIN. WATER
9	ARIMAN TECHNOLOGIES	COSMETICS
10	AVODALE WATER CO.	MIN. WATER
11	BEVERAGE SERVICES LTD	MIN. WATER/JUICES
12	BLUE WAVE LTD	MIN. WATER
13	CAMUYO ENTERPRISES	MINERAL WATER
14	CARTUBOX INDUSTRIES (E.A) LTD	MIN. WATER
15	CIRIO DELMONTE LTD	JUICES
16	COASTAL BOTTLERS LTD	SOFT DRINKS
17	CREATIVE DESIGNS LTD	MIN. WATER/JUICES
18	CENTROFOODS INDU. LTD	MIN. WATER/JUICES
19	CROWN FOODS LTD	MIN. WATER
20	EQUATOR BOTTLERS LTD	SOFT DRINKS
21	EXCEL CHEMICALS LTD	MIN. WATER/JUICES
22	FURAT MINERAL WATER LTD	MIN. WATER/JUICES
23	GITUGILINI LTD	MIN. WATER
24	GRANGE PARK LTD	MIN. WATER
25	HALISI MINERAL WATER LTD	MIN. WATER
26	HIGHLANDS MINERAL WATER	MIN. WATER/JUICES
27	JAFFA GOLD LTD	JUICES
28	JETLAK FOODS LTD	JUICES
29	JJM (K) LTD	JUICES
30	KABAZI CANNERS LTD	MIN. WATER/JUICES
31	KENMAL ENTERPRISES	MIN. WATER
32	KENYA NUT CO. LTD	MIN. WATER
33	KENYA ORCHARDS LTD	JUICES
34	KERIO WATER CO. LTD	MIN. WATER
35	KEVIAN KENYA LTD	MIN. WATER/JUICES
36	KHETIA DRAPPERS	MIN. WATER/JUICES
37	KISII BOTTLERS LTD	SOFT DRINKS
38	KOBA WATER LTD	MIN. WATER
39	KISIMA MINERAL WATER	MIN. WATER
40	KOMAX INVESTMENTS LTD	MIN. WATER
41	LITZAN ENTERPRISES LTD	MIN. WATER
42	LONG VIEW LTD	MIN. WATER
43	MILLY FRUITS PROCESSORS	MIN. WATER/JUICE/ SOFT DRINKS
44	MIRITINI (K) LTD	JUICES
45	MOUNTAN SPRINGS PURE W.	MIN. WATER
46	MT. ELGON BOTTLERS LTD	MIN. WATER
47	MOLO MOUNT MINERAL WATER CO. LTD	MIN. WATER
48	MT. KENYA BOTTLERS LTD	SOFT DRINKS
49	NAIROBI BOTTLERS LTD	SOFT DRINKS
50	NAKURU CRATER PURE WATER	MIN. WATER
51	PARADISE WATER LTD	MIN.WATER
52	PEARL INDUSTRIES	MIN. WATER
53	PEARLY WATERS LTD	MIN. WATER
54	PIONEER FOODS	MIN. WATER
55	PREMIER FOODS INDU. LTD	JUICES
56	PRIME WATERS LTD	MIN. WATER
57	RAGOS TRADING CO. LTD	MIN. WATER/JUICES
58	RAJU ENTERPRISES	MIN. WATER
59	RAZCO LTD	JUICES
60	RIDGEWAYS SPRINGS	MIN. WATER
61	RAINMAN WATER COMPANY LTD	MIN. WATER/JUICES
62	RIFT VALLEY BOTTLERS	SOFT DRINKS
63	SAMMIC ENTERPRISES	MIN. WATER
64	SEVENSEAS INVESTMENTS	MIN. WATER
65	SHEENA FOODS PRODUCTS LTD	JUICES
66	SOFTA BOTTLING CO. LTD	MIN. WATER/ SOFT DRINKS
67	STARPLAST LTD	MIN. WATER
68	SUNLITHO PLUS	MIN. WATER
69	TEN OUT OF TEN	MIN. WATER
70	THE KILIMANJARO CO. LTD	MIN. WATER/JUICE
71	TRISTAR BOTTLERS LTD	MIN. WATER
72	TRUFOODS LTD	JUICES
73	TWIN OAKS LTD	JUICES
74	VILCOS FOOD PRODUCTS	MIN. WATER /JUICE
75	WESTERN SPRINGS DRINKING	MIN. WATER
76	WORLD TRADE LTD	MIN. WATER
77	ZAVERIS LTD	MIN. WATER
78	ALISON PRODUCTS	COSMETICS
79	ANGELICA INDUSTRIES	COSMETICS
80	BEIRSDORF E.A. LTD	COSMETICS
81	BUYLINE INDUSTRIES	COSMETICS
82	CALTEX OIL (K) LTD	COSMETICS
83	CLIQUE LIMITED	COSMETICS
84	EUROPEAN PERFUMES	COSMETICS
85	FLAME TREE BRANDS	COSMETICS
86	HACO INDUSTRIES	COSMETICS
87	INTERCONSUMER PRODUCTS	COSMETICS
88	JAKHARIA PACKERS	COSMETICS
89	KAM INDUSTRIES	COSMETICS
90	MAIKAR QUALITY PRODUCTS	COSMETICS
91	MANHAR BROTHERS	COSMETICS
92	MODERN SOAP FACTORY	COSMETICS
93	NIGHTROSE COSMETICS	COSMETICS
94	OASIS LIMITED	COSMETICS
95	PZ. CUSSONS EAST AFRICA	COSMETICS
96	RAMJI RHARIBHAI DEVANI	COSMETICS
97	ROC COSMETICS	COSMETICS
98	SARALEE HOUSEHOLD/B. CARE	COSMETICS
99	SHANTI INDUTRIES	COSMETICS
100	TRICLOVER INDUSTRIES	COSMETICS
101	UNILEVER KENYA LTD	COSMETICS
102	UNITED CHEMICAL INDUSTRIES	COSMETICS
103	UZURI MANUFACTURERS	COSMETICS

Commissioner of Domestic Taxes

P.O Box 30165, Nairobi (00100), Telephone 310900, Fax: 253532, E-Mail: Commissioner.dtd@kra.go.ke

KRA Complaints and Information Centre can be reached through the following channels: In person: Office of the Commissioner General, Times Tower, 30th Floor. Ma

P. O. BOX 48240-00100 G.P.O Nairobi Phone (020) 281-7700:(Hotline),(020)281-7800(Hotline),(020)343342. Fax:(020)341342. Email:cic@kra.g