PRODUCT DIFFERENTIATION STRATEGIES ADOPTED BY OIL COMPANIES IN KENYA

BY

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ACRONYMS

ATMs	Automated Teller Machines
BP	British Petroleum
KPRL	Kenya Petroleum Refineries Ltd

DECLARATION

This Research Project is my original work and has not been submitted for an award of a degree at the University of Nairobi or any other University.

Signed: JMS&JJQ............. Date:.......M^l.J.Ql

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D61/P/8221/04

This Research Project has been submitted for examination with my approval as the University Supervisor

Signed: .^Jaf&i............ Date: **K.ki??.** r

Mrs Mary Kinoti
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DEDICATION

Dedicated to my husband Muthiani and children Eli and Eliana whose faith in me keeps me on target and without whose support I would miss the mark.

ACKNOWLEDGEMENTS

All of my work is a community effort; the community of people who love and support me, give me the inspiration to continue on the path. I salute you! I honour you! I love you all!

God. my father through whom I live and that I understand that You are enough.

I owe my supervisor Mrs. Mary Kinoti special gratitude for her immense support and guidance. Her positive criticism greatly enhanced and enriched this study. Thank you for your patience and for being so willing and available to me during the project. I must say that I was blessed to have you as my coach.

To my family - my husband Muthiani, for his moral, physical and financial support that enabled me to enrol and finish my MBA programme. My two lovely kids, Eli and Eliana, who would innocently scribble on my books and watch me as I burn the midnight candle. Thank you for being so willing to grow with me.

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These words cannot be enough. I pray for God's blessing upon your lives.

ABSTRACT

Petroleum industry has been dominated by competition by many oil companies. To achieve competitive advantage in the market, it is necessary that firms pursue strategies, which are difficult for competitors to copy. Product differentiation provides firms in the oil industry with the opportunity to make them more competitive. To understand the extent of use of this strategy in the oil industry, a study was undertaken and the objectives were to establish strategies used by oil companies to differentiate their products in the Kenyan market; and to determine the extent to which the different categories of petroleum companies have adopted product differentiation as a competitive strategy. The population of interest was major Oil companies based in Nairobi, which handle a base load allocation in excess of five hundred metric tonnes. Based on the base load of five hundred metric tonnes and above, sixteen companies were sampled and data collected through structured questionnaires. Out of the sixteen sampled respondents, eleven responded representing a response rate of sixty nine per cent. Data was analysed using descriptive statistics such as mean scores standard deviations and percentages.

The study established that Shell has embraced broad based product differentiation focusing on customer values. The Independent petroleum dealers and National Oil differentiate their products to target price sensitive segments of the market, for example the '*malalu*' market. Total differentiates its products through service (64%). Shell on quality (45%), Oilibya on Non-fuel offer (54.5%) and Independents on price (46%). All the Major oil companies ride on their brand name as a base of their strong foundation.

Product differentiation is a more sustainable competitive strategy due to the inherent difficulty of imitation. Unlike price-based competition, which is ruinous for the industry, differentiation can assist a firm to stretch its competitive edge in the industry. However, oil companies in Kenya have not fully exploited the potential of product differentiation. As a result, it is recommended that:

1. Oil companies need to exploit the gains of differentiation by investing on attributes valued by customers. This decision should be preceded by consumer survey to ascertain the specific differentiating attributes valued by customers.
2. Price is a key consumer concern and the Oil Marketers need to strike a balance between quality of product and price. However, given the Governmental proposal to regulate the retail pump prices, competition based on price is unsustainable. There needs to be a paradigm shift to other differentiating factors such as service, quality, non-fuel offers and so on.

Suggested considerations for future research include the following:

- The cost - benefit analysis on product differentiation in the oil industry in Kenya.
- Consumer perceptions about oil product differentiation in Kenya. Consumers are not aware of the differentiation strategies adopted by the Oil Marketers whether price or quality.
- Consumer survey to ascertain the specific differentiating attributes they value in product and service offering in the Oil industry.

CHAPTER ONE

INTRODUCTION

1.1 Background

Many countries including Kenya have deregulated their economies to create greater competition and growth opportunities. According to Menda (2002), globalization can be looked at as the creation of a market system in which national economies are integrated with each other through international markets. Most countries in the world have opened their boundaries to market forces where Governments are reducing their direct control in trade and instead facilitating the process of trade domestically and globally. Globalization and liberalization have led to intense competition from domestic and foreign companies, which are resulting to rising promotion costs, shrinking profit margins and increased customer expectations.

In response to competition, firms in Kenya are differentiating their products using measures such as improved product quality, improved product design, branding and brand extensions, provision of affordable products and increased customer focus. In the petroleum industry, responses by firms to competitive pressure have taken the forms such as differentiation through improved product quality, customer service and customer centric marketing. These efforts are aimed at assisting the firm to gain competitive advantage over their rivals in the market and to enhance long-term growth and profitability for the differentiating firm.

1.1.1 Product differentiation strategies

The forces of liberalization and globalization have led to intense competition by firms in the market forcing them to adopt strategies which aim at improving their competitive position in the market, preserving their share of the market and improving return on investment. Many firms have adopted generic strategies by managing costs, focusing on particular market segments and differentiating their products. A product can be defined as a bundle of attributes, which provide value to customers at a cost. Kotler (2003) looks at product differentiation as a combination of varying items such as product's form, features, performance, and conformance to quality, durability and reliability of the product. Physical products vary in their potential for differentiation. Many products can be differentiated in forms, which include size, shape or physical structure. Most products can be offered with varying features that supplement its basic function (Porter, 1985).

A strategy is a commitment to undertake one set of actions rather than another (Thompson and Strickland, 1995). A differentiation strategy assumes that competitive advantage can be gained through particular characteristics of a firm's product (Kasera, 2006). According to Porter (1985) product differentiation is a process through which a product is given unique attributes that are valued by customers. Products may be categorized as: breakthrough products (new and innovative), improved products (superior and 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).

A company can identify and select appropriate new features by surveying new recent buyers and then calculating values versus company costs for each potential feature. Kotler and Keller (2007) further argue that the company should also consider how many people want each feature, how long it would take to introduce each feature, and whether competitors could easily copy the feature. Most products are established at one of the four performance levels: low, average, high, or superior. Performance quality is the level at which the product's primary characteristics operate. Firms must design a performance level appropriate to the target market and competitors' performance levels. A company must also manage performance quality through time. Continuously improving the product can produce high returns and market share. Lowering quality in an attempt to cut costs often has dire consequences.

Buyers expect products to have a high conformance quality, which is the degree to which all the produced units are identical and meet the promised specifications. Bakunda (2001) argues that buyers will normally pay a premium for more reliable products. In the oil industry context, customers may be willing to pay a higher price for petroleum products, which they consider genuine, and of high quality. However, when it is perceived that the fuel is adulterated; customers may avoid buying it altogether. Reliability is a measure of the probability that a product will not malfunction or fail within a specified time period.

1.1.2 The Oil Industry in Kenya

The history of the oil industry can be traced to Pennsylvania, USA with the establishment of the Standard Oil Company by John D Rockefeller in 1870 whose key business was the refining, distribution and transportation of oil throughout America. Over the years, the company expanded its operations on a continental scale and owned many subsidiary companies, which exported oil worldwide. In Kenya, the first multinational oil company is thought to have started its operations in 1900 with the establishment of Port town of Mombasa. The oil industry in Kenya is made up the following major oil marketing companies - Chevron, Kenol Kobil, Oilibya, Shell and Total. Other key players include Government owned National Oil, Bakri, Petro, Oilcom, Galana, Engen, Hass and Triton. Apart from Chevron, Shell and Total, which are affiliates of international oil companies, the rest have African ownership.

The oil industry in Kenya has experienced two deregulations, one between 1963 and 1971, and the second one from 1994 to present (Chepkwony, 2001). The oil industry was partly deregulated in the years between 1963 and 1971. The industry was largely owned and managed by the oil companies, which were free to determine the prices of petroleum products on the basis of production costs and profit margins. However, the 'White Oil rule' forbade the oil companies from importing refined petroleum products. This was largely to ensure supply of liquefied petroleum gas (LPG) and also partly to protect the commercial interests of the oil refinery. The era of partial deregulation in the oil industry ended with the Government's introduction of price controls on petroleum products in

1971. The Government then purchased 50% of the refinery's shareholding from the original owners - Shell/ BP, Esso and Caltex. A new company, the Kenya Petroleum Refineries Limited (KPRL) was formed. During price control period, oil industry executives constantly accused the Government of creating inefficiencies in the market by distorting petroleum prices. They complained of Government's reduction of their profit margins through increased taxes with no corresponding increases in prices (Daily Nation, 1994).

In October 1994, the oil industry was deregulated again whereupon an influx of new entrants into the market was experienced. The deregulation process was meant to dismantle all Government controls that hindered the operation of a free market system. This was a positive move to organize the economy on the basis of a free and a competitive market in order to enhance economic growth.

Oil companies operate in oligopolistic market structure characterised by strong mutual independence, homogenous petroleum products and high capital entry requirements (Browning and Zupan, 2003). The strong mutual independence and competitor reaction patterns by industry players make it difficult to compete on price. Competition on the basis of price has brought with it a decline in margins, reduced profitability and contributed to operating losses. This is evidenced by Total Oil Kenya Limited, a publicly quoted company which reported a loss of Kshs 222 million in the year 2001 (Marami, 2006). Price based competition is not sustainable and marketing professionals warn that an increased emphasis on price, often involving the excessive use of price promotions may lead to the deterioration of industries into commodity - like business areas (Kotler, 2003). Firms in the oil industry have turned to product differentiation as an alternative strategy to survive the competition and maintain their share of the market.

Consumers typically choose products and services that give them the greatest value. Thus, marketers want to position their products on the key benefits relative to competing brands. Firms use various strategies to differentiate their products in the market. Given the nature of competition in the oil industry, firms trading in petroleum products have pitched on product differentiation strategy as a panacea to survival in the market. Products in the petroleum industry are differentiated through branding, use of additives, fuel variants such as low sulphur diesel, service, price, promotions and image.

Marami (2006) argues that whereas in the past a few of the major oil companies, notably Caltex attempted to differentiate their offering using additives such as CX - 3, this is no longer the case. Various reasons, chief among them being the inability to recover the cost of the additive through the pump prices alone, are cited as constraints to this mode of differentiation. Since differentiation of products can be used to enhance a firm's competitive position in the market, it would be important to know the extent to which Oil companies in Kenya differentiate their products.

1.2 Statement of the Problem

Petroleum is a profitable growth industry and the advent of liberalization in October 1994 has witnessed unprecedented influx of players into this sector. This has led to stiff competition, as the fight for customers seems to be a never-ending war. Intense industry competition fuelled by the nature of the product in the industry has led to closures of business by some companies, while many others have merged. Price-based competition in the oil industry is unsustainable and oil companies are opting for differentiation strategies, which provide unique value proposition, guarantee firms an edge against coping by rival firms and offer sustainable and distinctive competitive advantages. Successful differentiators obtain a competitive advantage, outperform their competitors, and can dominate the market or market segment in which they compete (Hill and Jones, 2004). Despite the importance of product differentiation as a competitive strategy, a review of literature found that no study has been done in this area in the petroleum industry.

A survey of firms in Italy by Frangouli (2002) revealed that differentiation can increase entry barriers in an industry. Locally, Apungu (2003) found that Nairobi residents are primarily concerned with quality of products or services when choosing where to fuel their cars. The findings indicate that product and service quality are valued more than anything else by fuel customers. A survey carried out by Mukewa (2005) on differentiation strategies used by hotels in Nairobi found that friendliness to customers, and communication was the most important aspect of personnel differentiation. The study further revealed that hotels do not use media as a dimension of differentiation.

A study by Kasera (2006) on product differentiation strategies adopted by firms in the water bottling industry found that branding was the major product differentiator. The study was carried out among water bottling companies based in Nairobi. It differs from the current research, which aims at investigating product differentiation strategies in the oil industry. A study by Chepkwony (2002) revealed that petroleum firms have taken product quality as a top priority and that firms have increasingly introduced new products to meet the ever-changing customer needs. His study left a knowledge gap because it did not inform readers about product differentiation strategy used in the industry to respond to competition.

While it is evident from empirical studies that product and service quality are major differentiation variables across many industries, it is apparent that product differentiation strategies vary from industry to industry. It is therefore important to investigate product differentiation strategies adopted by firms in the Oil industry. The study seeks to bridge the existing knowledge gap by finding responses to the following questions:

i. How are petroleum products differentiated by Oil companies in the Kenyan market?

ii. To what extent have petroleum companies in Kenya adopted product differentiation as a competitive strategy?

1.3 Research Objectives

i) To establish strategies used by oil companies to differentiate their products in the Kenyan market.

ii) To determine the extent to which the different categories of petroleum companies have adopted product differentiation as a competitive strategy

1.4 Importance of the study

The proposed study will benefit the following groups of readers:

i) Petroleum oil companies in Kenya will gain from findings of the study by learning from success stories of firms, which have differentiated their products and also get new knowledge, which will enable them, differentiate their products and reposition them in the market.

ii) Potential investors will gain a better understanding about product positioning strategies taken by existing firms. Such an understanding will enable investors pursue new product positioning which will ensure sustainability in sales and competitiveness.

iii) Future researchers and scholars will also gain from the study through increased body of knowledge and literature in the field of marketing strategy.

CHAPTER TWO

LITERATURE REVIEW

2.1 Meaning and Role of Strategy

The interest in strategy was provoked by the growing realization that the firm's environment has become progressively changeable and discontinuous from the past and that as a result, objectives alone are insufficient as decision rules for guiding the firm's strategic orientation as it adapts to changing challenges, threats and opportunities (Igor A 1987). A business strategy is the blue print of the path a firm intends to take to beat competitors and or build a solid customer base in a specified period. Strategy is the output or result of the strategy formulation process which takes the shape of a broad statement of decisions and actions the firm intends to pursue in a specified period and which the top management is fully convinced about as the best course of action forward to achieve the company's stated long term objectives (Bakunda, 2001).

The concept of strategy can be traced to military where it was applied in war. The business world adopted this concept in the nineteenth century. Some scholars however, argue that it is difficult to trace the time when the term began to be employed to business (Mulema, 2003). Strategy can be said to denote a general programme of action and deployment of emphasis and resources to attain comprehensive objectives. There is no one single definition of strategy. According to Chandler (1962) strategy is the determination of the basic long-term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals. Andrews (1965) defines strategy as pattern of objectives, purpose or goals and major policies and plans for achieving these goals, stated in a way to define what business the company is in, and the kind of company it should be. In a competitive world where the success of the firm depends on its competitive advantage, strategy becomes a vital tool in exploiting opportunities, reducing weaknesses, enhancing strengths and managing threats. Porter (1980) argued that strategy is the central vehicle for achieving competitive advantage in the market place. Strategy can also be defined as the matching of the resources and activities of the organization to the environment in which it operates (Johnson and Scholes, 2002). The notion of strategic fit is developing strategy by identifying opportunities in the business environment and adopting resources and competences so as to take advantage of these opportunities.

Since the industrial revolution, the conventional wisdom has been that the private sector is better at managing and changing organizations than either the public or voluntary sectors (Bumes, 2004). Strategy is credited for providing competitive advantage to organizations. In a competitive oil market, firms need to have competitive strategies to retain their share of the market. Competitive strategy refers to that internal factor that enables a business firm to have market superiority or leverage over its competitors on a sustainable basis (Bakunda, 2001). It is the factor that enables a business enterprise to have an enhanced market advantage over its competitors.

2.2 Differentiation

The battle for business takes place in the customer's mind and a business should have something different and better from the competition before the customer decides to spend money on the good/service. Consequently, companies today have to stand apart or "differentiate" their product in an increasingly crowded and competitive marketplace. Over the last few years, many different meanings of differentiation have surfaced (Dwyer, 1998). For example, differentiation has been described as the strategy by which one firm attempts to distinguish its product from competitive brands offered to the same aggregate market (Sommers and Barnes, 1999). Carpenter (1999) viewed differentiation as a competitive advantage, which identifies a valuable, relevant, but overlooked dimension of a product. Rightmer and Jeney (2002) proposed differentiation as business strategy that brings value to a product and to the customer. Trout (2000) suggested the essence of differentiation is offering an option that the competition cannot or does not offer. In an article that appeared in the July/August 1997 issue of the Harvard Business Review titled "Discovering new points of differentiation", MacMillan and McGrath argue differentiation is about offering customers products with unique attributes that they value and that customers perceive to be better than or different from competitors' products.

Traditional differentiation places more emphasis on competitive advantage, whereas the new points of differentiation (NPD) approach stresses "greater value for customers and greater potential revenue for the business by fulfilling customer wants more precisely". Differentiation calls for continuous innovations, intensive advertising and sales effort, research and development and premium pricing to cover added cost of differentiation. Besides pricing, differentiation can be obtained by image building, high quality and distinctive products, superior product services, unique design and packaging, product reliability, and convenient payment system. Hill and Jones (2004) argue that the objective of the generic differentiation strategy is to achieve a competitive advantage by creating a product that customers perceive as different or distinct in some important way. A company that pursues a differentiation strategy strives to differentiate itself along as many dimensions as possible. The less it resembles it rivals, the more it is protected from competition and the wider is its market appeal.

2.2.1 Innovation differentiation

Innovation differentiation is based on superior or unique product performance, features, reliability, durability, serviceability, or aesthetics (Garvin, 1987). For example, McDougall *el al.* (1992) found that new venture firms typically offer a narrower range of products, which have superior performance characteristics or unique product features and patented technologies. Businesses often exploit market niches by tailoring products and processes to their unique needs. In order to deem a product superior or unique, customers must implicitly or explicitly compare product attributes to competing product attributes or to their own expectations.

In the case of competing products that have similar features, product conformance to design specifications is a necessity, since customer comparisons are pre-empted by defects. In addition, the degree of conformance to specifications may greatly influence the reliable performance of the product. High conformance quality stems from the coherence of process capabilities and design specifications. Conformance can be improved through greater process controls. However, greater conformance also results from more effective allocation of design tolerances and specifications. If manufacturing personnel are able to relate process capability information to the needs of product designers, this improves the designers' abilities to specify design requirements in ways, which meet product performance requirements and are at the same time producible. The ability to innovate a valuable new manufacturing technology or to use technology in a unique way, coupled with abilities to communicate an understanding of the technology's superior or unique capabilities, makes manufacturing more supportive of innovation differentiation.

2.2.2 Marketing differentiation

Business strategy research identifies marketing differentiation as a unique strategy (Miller, 1986). However, few studies have distinguished its different forms. Discussions of marketing differentiation address ancillary product aspects such as superior product promotion, service, delivery speed and reliability, packaging, installation, maintenance, etc. Marketing differentiation concepts therefore encompass the intangible, informational aspects of selling and servicing a product as well as the tangible, procedural aspects of product delivery and replenishment (Mintzberg, 1988).

Chase and Garvin (1989) and Chase *el al.* (1992) identified the service roles manufacturing can play in improving the information and image characteristics of product differentiation. To enhance external customer satisfaction, "service factories" seek to make their products more attractive by offering customers easy access to manufacturing information and consultation, and by making inputs into the design or sales of the product or accompanying service. For example, manufacturing functions at Hewlett-Packard and Digital Equipment Corporation provide quality data sheets, video tapes, and equipment demonstrations for potential customers.

Manufacturing's ability to share useful information with customers increases their total satisfaction and loyalty, thereby increasing repeat business. Numerous other examples exist of suppliers who provide greater access to product ordering and replenishment information by electronically linking their scheduling systems to those of their customers. As more and more firms employ these types of media to convey manufacturing information, the relative quality of service performance will be determined by the acuity with which manufacturing consults, communicates, and exhibits.

Image differentiation is produced by addressing customers' expectations via promotions or other communications (Davidow and Uttal, 1989). Manufacturing contributes to a product's positive image by providing product or processing information, which presents the firms' capabilities as unique or superior to competitor's manufacturing capabilities. Manufacturing's showcasing abilities make customers aware of product differences and process superiorities. To be successful there needs to exist an in-depth understanding of customer's desires and values. The value of manufacturing's showcasing abilities is closely tied to the customer's perception of uniqueness or superiority of manufacturing processes.

Innovation differentiation strategies are often linked with efforts to elevate product image. Marketing differentiation strategies often emphasize a combined package of superior delivery speed, dependability, and information. Value-based strategies seek to provide superior product performance at competitive prices.

2.3 Differentiation as a competitive strategy

The essence of strategy lies in creating tomorrow's competitive advantages faster than competitors mimic the ones you possess today. Thompson and Strickland (1995) observes that there are many sources of competitive advantage: having the best-made product on the market, being able to deliver superior customer service, achieving lower costs than rivals, being in a more convenient geographic location, proprietary technology, features and styling with more buying appeal, shorter lead times in developing and testing new products, a well known brand and reputation, and providing buyers more value for money (a combination of good quality, good service and acceptable price). Essentially, to succeed in building a competitive advantage, a company's strategy must aim at providing buyers with what they perceive as superior value - a good product at a lower price or a better product that is worth paying more for.

Bakunda (2001) identified sources of competitive strategy as use of continuous innovation, superior technology, scale of operation, superior quality products, high value for money and high degree of performance and reliability. Continuous innovation is generally regarded as the only sure source of competitive advantage for any firm. To build and sustain a competitive advantage, a firm requires a competitive strategy that will enable it perform better than its rivals. Unless a product or service offers something which customers value and does so better than its competitors, there will be no reason for customers to prefer it and may not be worth to consider. It is equally important that there is no confusion regarding benefits offered. The competitive edge may lie in the product or service or in the organisational skills and competencies in delivering the product or service. Whatever the origin of the competitive edge, the strategy should offer features valued in the market place, should take into account previously identified key success factors and meet some newly identified needs.

When a firm sustains profits that exceed the average for the industry, the firm is said to possess a competitive advantage over its rivals. Michael Porter (1980) identified two basic types of competitive advantage: cost advantage and differentiation advantage. A competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage) or delivery benefits that exceed those of competing products (differentiation advantage). Thus, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself.

Figure 1: Model of Competitive Advantage

Resources

Distinctive Competencies

Cost advantage or Differentiation Advantage

Value Creation

t r

Capabilities

Figure 1 above explains how a firm can achieve competitive advantage. In order to develop a competitive advantage the firm must have resources and capabilities that are superior to those of its competitors. Without this superiority, the competitors can simply replicate what the firm is doing and any advantage quickly disappears. Resources are the firm specific assets useful for creating a cost or differentiation advantage and that few competitors can acquire easily e.g. patents and trademarks, brand equity or even the reputation of a firm. Capabilities refer to the firm's ability to utilise its resources effectively e.g. the ability to bring a product to market faster than competition. Resources and capabilities lead to distinctive competencies that will thus enable innovation, efficiency, quality, and customer responsive, all of which can be leveraged to create a cost and differentiation advantage. In turn, the firm will create superior value through lower costs or superior benefits.

2.4 Product differentiation

Product differentiation is the process of designing products to satisfy customers' needs. A company obtains competitive advantage when it creates, designs, and supplies a product in a way that better satisfies customer needs than its rivals do and chooses the correct pricing option which result in the level of demand that optimizes profitability (Hill and

Jones, 2004). A differentiation strategy assumes that competitive advantage can be gained through particular characteristics of a firm's product (Kasera, 2006). According to Porter (1985) product differentiation is a process through which a product is given unique attributes that are valued by customers. Products may be categorised 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 strategies are pervasive in market economies and are a powerful means of obtaining competitive advantages. Firms create value by cost leadership or differentiation (Porter, 1985). Using the latter strategy, firms differentiate their products to avoid ruinous price competition and seek some form of monopoly rent (Hingley *et al,,* 2006). Differentiation offers firms market power and may as well increase entry barriers in the industry due to customer loyalty attached to differentiated products.

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 and after sales service. 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 to lower sensitivity to price while increasing margins.

The key to winning and keeping customers is to understand their needs and buying process better than competitors do and to deliver more value (Kotler and Armstrong, 2002). Moore and Pessemier (1993) argue that the ability to provide superior value to customers on a continuous basis must be based on some unique capability the firm possesses. If not, any differences in benefits or prices can easily be copied. Sustainable competitive advantage requires that firms position themselves uniquely in the market, but solid positions cannot be built on empty promises. Thus, positioning begins with actually differentiating the company's marketing offer so that it will give consumers more value than competitors' offer do. Kotler and Armstrong (2002) observe that to find points of differentiation, marketers must think through the customer's entire experience with the company's product or service. A company or market offer can be differentiated along the lines of product, services, channels, people, or image.

Brands can be differentiated on the basis of a number of different product or service dimensions which include product form, features, performance, conformance, reliability, style, and design, as well as such service dimensions as ordering ease, delivery, installation, customer training, customer consulting, and maintenance and repair (Kotler and Keller, 2007). Besides these specific concerns, one more general positioning for brands is as 'best quality'. Quality depends on actual product performance, but it is also communicated by choosing physical signs and cues. Companies can gain a strong competitive advantage through having better trained people. Companies can also achieve competitive advantage through the way they design their distribution channels coverage, expertise, and performance. Oil companies in Kenya differentiate themselves through distinguished identity and image. Identity is the way a company aims to identify or position itself or its product, in the minds of the consumers.

Differentiation can also be based on the attributes of the people in the company whom customers interact with when making a product purchase, such as their competence, courtesy, credibility, responsiveness, and communication. For a product to be regarded as high quality, a company's product offering must be seen as superior to those of rivals. Achieving a perception of high quality on any of these attributes require specific actions by managers (Hill and Jones, 2004). First, it is important for managers to collect marketing intelligence indicating which of these attributes are most important to customers. For example, customers of petrol may place low attribute on smell but, may Place a high weight on purity of the fuel or absence of impurities. Second, once the company has identified the attributes that are important to customers, it needs to design its products, and the associated services, so that those attributes are embodied in the product, and it needs to make sure that personnel in the company are appropriately trained so that the correct attributes are emphasized.

Third, the company must decide which of the significant attributes to promote and how best to promote and position those attributes in the minds of consumers. That is, how to tailor the marketing messages so that it creates a consistent image in the minds of customers. Finally, it must be recognized that competition does not stand still, but instead produces continual improvement in product attributes and often the development of new product attributes.

Products can be differentiated at every stage of their life cycles. The product life cycle is typically divided into four stages, which include introduction, growth, maturity and decline. Introduction stage is a period of slow sales growth as the product is introduced in the market. Profits are non-existent because of heavy expenses of product introduction. The growth stage is characterized by rapid market acceptance and substantial profit improvement. At maturity, a slow down in sales growth is observed and at decline stage sales show downward drift and profits erode (Kotler and Keller, 2007). Not all products exhibit bell shaped product life cycle. Petroleum products may exhibit scallopcd pattern of product life cycle.

As competition intensifies, design offers a potent way to differentiate and position a company's products and services (Adcock and Bradfield, 1998). Kotler and Keller (2007) argue that in increasingly fast - paced markets, price and technology are not enough. Design is the factor that will often give a company its competitive edge. It is the totality of features that affect how a product looks and functions in terms of customer requirements. In the petroleum industry however, design has less relevance because most goods are not packaged and products are non-durable. In the Oil industry the package would include the outlook of the stations, i.e modern stations that are safe, station staff with proper uniform and well branded stations like the shops and tyre centers,

Quality is the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs (Kotier and Keller, 2007). We can say that the seller has delivered quality whenever the seller's products or service meets or exceeds the customers' expectations. Consumers often judge the quality of a product or service on the basis of a variety of informational cues that they associate with the product. Some of the cues are intrinsic to the product while others are extrinsic. Schiffman and Kanuk (2007) observe that either singly or together, such cues provide the basis for perceptions of product and service quality.

Attributes that signal quality have been dichotomized into intrinsic and extrinsic cues (Zeithaml, 1988). Intrinsic cues involve the physical composition of the product. Intrinsic attributes cannot be changed without altering the nature of the product itself and are consumed as the product is consumed (Zeithaml, 1988). Extrinsic cues are product related but not part of the physical product itself. Price, brand name, and level of advertising are examples of extrinsic cues to quality. A small number of cues, most notably those involving the product's package, are difficult to classify as either intrinsic or an extrinsic cue depending on whether the package is part of the physical composition of the product, in which case it would be an intrinsic cue, or protection and promotion for the product, in which case it would be an extrinsic cue.

2.4.1 Benefits of Product differentiation

Product differentiation is important in that it has the capacity to create the perceived product differences between the offerings made by various companies. Companies compete by changing the characteristics of the products they sale. The idea is not necessarily to make a better product than the competitor, just different to appeal to a different market niche. When products are subjected to discrimination, consumers are able to develop mental picture based on different cues and therefore develop preferences.

What makes differentiation strategy attractive is that it offers a buffer against rival's strategies when it results in enhanced buyer loyalty to a company's brand and greater willingness to pay a little more. Successful differentiation erects entry barriers in the form of customer loyalty and product/service distinction that newcomers find hard to handle. It also mitigates buyer's bargaining power since the products of alternative sellers are less attractive. Lastly it helps a firm fend off threats from substitutes or illegal products - the oil industry is faced with threat of illegal refills of cooking gas and lubricants. In addition to the above, differentiation allows a company to charge a higher price and have bigger profit margin.

According to Hill and Jones (2004) differentiation safeguards a company against competitors to the degree that customers develop brand loyalty for its products. Differentiation and brand loyalty also creates a barrier to entry for other companies seeking to enter the industry. New companies are forced to develop their own distinctive competency to be able to compete, which is an expensive undertaking. The customers will also be willing to pay an extra shilling for the difference thereby earning the firm higher profit margins, putting it in a stronger position with suppliers.

Product positioning is a central management concern. Often, management needs to consider introducing a new product or even repositioning existing ones (Hadjinicola, 1999). There is general agreement that the concept of positioning has become one of the fundamental components of modern marketing management (Kotler, 2000). Its importance is further supported by evidence that indicates a positive relationship between company performance (in terms of profitability and or efficiency) and well - formulated and clearly defined positioning activities (Porter, 1996). Dovel (1990) contended that positioning should not just be a part of firm's strategy. It should be the backbone of the firm's business plan.

Ries and Trout (1986) argue that positioning is not what is done to the product/service, but rather what is done to the mind of the prospect. Kotler (2000) defines positioning as the act of designing the company's offering and image to occupy a distinct place in the target's mind. The process of positioning can be iterative, it necessitates deliberate and proactive actions; it involves decisions at conceptual, strategic and operational levels and should reflect the triumvirate deliberations of the company, its competitors and its target market/customers.

In a growing or mature market, positioning becomes even more important in differentiating competitive products. The knowledge of consumer benefits becomes critical in product positioning (Arora, 2006). One question that is salient in positioning a product is which attributes should be stressed? Chernev (2004) proposes that products with attributes compatible with individual's goal orientation tend to be over weighted in their choice of products. Consumers choose brands with attributes that are consistent with their goals.

A good brand positioning helps guide marketing strategy by clarifying the brand's essence, what goals it helps the consumer achieve, and how it does so in a unique way. The result of positioning is the successful creation of a customer focused value proposition, a cogent reason why the target market should buy the product (Kotier and Keller, 2007). Positioning requires that similarities and differences between brands be defined and communicated. Many positioning strategies are available to the firms and they may choose from low price, high quality, high service and advanced technology positions.

2.4.2 Risks of a differentiation strategy

There are no guarantees that product differentiation will produce a meaningful competitive advantage. If buyers see little value in the product's distinctions, then low cost strategy can easily defeat a differentiation strategy. In addition, differentiation can be defeated if competitors can quickly copy most or the entire appealing product attributes a company develops. Rapid imitation means that a firm never achieves real differentiation since competing brands keep changing in like ways each time a company moves to set its offering apart.

Trying to differentiate on the basis of something that does not lower a buyer's cost or enhance a buyer's well being as perceived by the buyer is another common pitfall. Sometimes a firm can over differentiate so that price is too high relative to competitors or product quality or service levels exceed buyers needs. Another risk is ignoring the need to signal value and depending only on intrinsic product attributes to achieve differentiation.

2.5 Summary of literature review

A review of literature indicates that product differentiation strategy leads to competitive advantage in the market. Both conceptual and empirical literature as demonstrated by Kasera (2006); Hill and Jones (2004); and Porter (1985) suggests that the main objective of product differentiation is to outdo rivals in a competitive market. Firms, which pursue differentiation, strive to differentiate themselves along as many dimensions as possible. Companies base their product differentiation strategies on branding, positioning, design and quality.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The study used a survey design. Coopers and Emory (1995) assert that this type of research design is appropriate in getting answers from several individuals at one point in time. The study adopted descriptive design in determining product differentiation strategies adopted by oil companies in Kenya.

3.2 Population

Population is a complete set of individuals, cases or objects with some common observable characteristics (Mugenda and Mugenda, 2003). The population of interest were major Oil companies based in Nairobi, which had a base load allocation in excess of 500 metric tonnes.

3.3 Sampling and sample size

A complete list of the oil companies as at Third Quarter of 2008 was obtained from the Kenya Petroleum Refineries Ltd (Appendix **III).** Based on base load of 500 metric tonnes and above, 16 companies were sampled. The choice of this group was based on the fact that they have been in the oil business for more than 5 years and have considerable market share and are exposed to threat of competition requiring them to differentiate their products and also have the capacity and capability of reacting to competition. The sample respondents consisted of marketing managers of the oil companies. The marketing managers were selected because they are knowledgeable about the area of study. In addition, since product differentiation strategies falls under the docket of marketing managers, it was appropriate to interview them.

3.4 Data collection

Primary data was collected using a semi-structured questionnaire. Given the nature of the study, the questionnaires were personally administered by the researcher and her assistants. The researcher administered the questionnaires by conducting personal interviews with the sampled managers. The questionnaire was divided into three sections. Section A contained general information about the companies under study. Section B had questions investigating strategies used by oil companies to differentiate their products in the Kenyan market. Section C targeted data aimed at eliciting information to determine the extent to which the different categories of petroleum companies have adopted product differentiation strategy.

3.5 Data Analysis

Collected data was analyzed using the descriptive statistics such as mean scores, percentages and standard deviations. Data on section A of the questionnaire was analyzed using frequencies and percentages. The frequencies and percentages were used to give summary statistics of variables being studied. Data on section B was analyzed using content analysis and mean scores. Data from section C was analyzed using mean scores and standard deviations. Mean scores were used to determine the extent to which Oil companies have adopted product differentiation strategies. Standard deviations were used to determine the varying degrees of product differentiation strategies adopted, in the different categories of petroleum companies.

CHAPTER FOUR

DATA ANALYSIS AND RESULTS

4.1 Introduction

The study targeted 16 oil companies handling base load of 500 metric tonnes and above and located within Nairobi area. Out of the targeted 16 Marketing Managers, only 11 responded representing a response rate of 69 per cent, which was considered adequate for the study. Data obtained was checked for completeness. Data was entered into a computer analytical software (SPSS) and cleaned. Analysis was done using descriptive statistics in built within the software. To increase visual visibility, results were presented in tables.

4.2 Background information

This section shows background information of the respondents. These variables include age, ownership status, number of permanent employees engaged by the firm, number of product lines handled and the nature of business.

4.2.1 Years in Kenya and the number of product lines

Table 1 shows that more than half (55%) of the oil companies in Kenya are less than 20 years old. However, it was noted that 18 per cent of oil companies are more than 50 years old in Kenyan market. It was revealed that there is a correlation between age of the firm and number of product lines handled. While younger firms handled less than 5 product lines, the more established companies handled more than 5 product lines.

Table 1: Years of operation in Kenya and Number of product lines handled

Years of operation in Kenya	Number of product lines Less than 5	5-9	15-19	Total
Less than 20 Years	6	2	0	8
50 - 59 Years	0	0	1	1
More than 59 Years	0	1	1	2
Total	**6**	**3**	**2**	**11**

4.2.2 Ownership status and number of product lines handled

Ownership status had influence on number of product lines handled by the oil companies. All (100%) locally owned firms handled less than 5 product lines while 83 per cent of foreign owned firms handled more than 5 product lines as shown in the table.

Table 2: Ownership status and Number of product lines handled

Ownership status	Number of product lines Less than 5	5-9	15-19	Total
Foreign owned	1	3	2	6
Locally owned	5	0	0	5
Total	**6**	**3**	**2**	**11**

4.2.3 Years of operation in Kenya and number of permanent employees

Results indicate that there is a relationship between age of the firm and number of permanent employees. 75 per cent of firms aged below 20 had less than 50 employees while 100 per cent of firms aged 50 and above had more than 130 permanent employees as contained in table 3.

Table 3: Years of operation in Kenya and number of permanent employees

Years of operation in Kenya	**Number of permanent employees**			Total
	Less than 50	**109-129**	**More than 130**	
Less than 20 Years	**6**	**1**	**1**	**8**
50 - 59 Years	0	0	**1**	**1**
More than **59** Years	0	0	2	**2**
Total	**6**	**1**	**4**	**11**

4.2.4 Nature of business

It was established that 91% of the oil companies engage in Business to Business, Business to Consumer, Retail Operations and Export. However, 9 per cent of the oil companies only engage in Retail and Export business.

Table 4: Nature of business

Business type	**Frequency**	**Percentage**
Retail and Export	1	9.1
All the above (Retail, Export, Business to Business and Business to Consumers	10	90.9
Total	**11**	**100.0**

4.3 Strategies used by Oil companies to differentiate their products

It was revealed that 63 percent perceive their products similar to those of competitors while 37% of the companies consider their products to be different from those of competitors. Products were perceived to be differentiated using features such as branding, low sulphur, safety & environment and special additives that protect engine from corrosion.

4.3.1 Pricing Versus Quality as product differentiation strategies

Table 5 below shows that Shell, Chevron and Total use quality to differentiate their products. In addition, Independent Petroleum dealers, National Oil and Kenol Kobil use price to differentiate their products, as presented in table 5.

Table 5: Pricing versus quality as product differentiation strategies

Pricing as a product differentiation strategy	**Quality as a product differentiation strategy**			**Total**
	Shell	**Chevron**	**Total**	
Kenol Kobil	**2**		0	**3**
National Oil	**2**	**0**	1	**3**
Independent Petroleum dealers	4	0	1	**5**
Total	**8**	1	**2**	11

4.3.2 Quality and Brand as product differentiation strategies

In addition to quality, the Multinational Oil companies, i.e. Shell, Chevron and Total also use brand name to differentiate it products from those of competitors. Brand name was used by 36% of the oil companies to differentiate their products.

Table 6: Quality and Brand as product differentiation strategies

Quality as a product differentiation strategy	Brand name as a product differentiation strategy				Total
	Kenol Kobil	Shell	Chevron	Total	
Shell	1	2	2	2	7
Chevron	0	1	1	0	2
Total	0	1	0	1	2
Total	1	4	3	3	11

4.3.3 Pricing as a product differentiation strategy

It emerged that the independent petroleum dealers take the lead (45.5%) in using price as a differentiation strategy. Kenol Kobil and National Oil also exhibit considerable (27.3%) tendency of use of price as a differentiation strategy.

Table 1: Pricing as a product differentiation strategy

Oil company	Frequency	Percentage
Kenol Kobil	3	27.3
National Oil	3	27.3
Independent Petroleum dealers	5	45.5
Total	**11**	**100.0**

4.3.4 Use of Quality as a product differentiation strategy

I able 8 below illustrates that Shell dominates (45%) the use of quality as a product differentiation strategy in the oil industry. It is important to note that only 27% of the oil companies use quality as a product differentiation strategy.

Table 8: Use of quality as a product differentiation strategy

Oil company	Frequency	Percentage
Shell	5	45
Kenol Kobil	1	9.1
Total	3	27.5
Chevron	2	18.2
Total	**11**	**100.0**

4.3.5 Service as a product differentiation strategy

It was found that despite 45% of oil companies using service to differentiate their products, Total leads the pack by 45.5 per cent as contained in table 9.

Table 9: Service as a product differentiation strategy

Oil company	Frequency	Percentage
Shell	2	18.2
Chevron	2	18.2
Oilibya	1	9.1
Total	5	45.5
Kenol Kobil	1	9.1
Total	**11**	**100.0**

4.3.6 Operations scale as a product differentiation strategy

Thirty six per cent of oil companies use operational scale as a product differentiation strategy. However, it was noted that all major oil companies have invested in operations using it to their advantage.

Table 10: Operations scale as a product differentiation strategy

Oil companv	Frequency	Percentage
Kenol Kobil	1	9.1
Shell	3	27
Chevron	3	27
Total	3	27
Oilibya	1	9.1
Total	**11**	**100.0**

4.3.7 Corporate brand name as a product differentiation strategy

Results indicate that Shell (27.3%); Total (27.3%) and Chevron (27.3%) dominate the use of strong brand name to differentiate their products. Only 36% of the oil companies use corporate brand name to differentiate their products.

Table 11: Corporate brand name as a product differentiation strategy

Oil company	**Frequency**	**Percentage**
Kenol Kobil	2	18.2
Shell	3	27.3
Total	3	27.3
Chevron	3	27.3
Total	**11**	**100.0**

4.3.8 Non fuels as a product differentiation strategy

As shown in the table below, it was noted that Oilibya is the dominant player (54.5%) in the use of non - fuel products to differentiate their products.

Table 12: Non fuels as a product differentiation strategy

Oil company	Frequency	Percentage
Shell	1	9.1
Chevron	1	9.1
Kenol Kobil	2	18.2
Total	2	18.2
Oilibva	6	54.5
Total	11	100.0

The extent to which Oil companies differentiate their products

The extent to which Oil companies differentiate products was assessed based on specific attributes. A five - point Likert scale was used in assessing respondents' perception along each attribute. In order to determine the extent to which various attributes are used by the oil companies, the scores of each attribute was analyzed to get the mean and standard deviation. The mean scores were rated in the following manner: 0 - 1.4 = Very large extent; 1.5 - 2.4 = large extent; 2.5 - 3.4 = Moderate extent; 3.5 - 4.4 = small extent; 4.5 - 5.0 = Very small extent. The standard deviation involves subtracting the mean from each score to obtain the deviation. The standard deviation was used to measure the extent to which scores in the distribution deviate from their mean or average.

4.4.1 The extent to which oil companies use various attributes to differentiate products

As depicted in table 13 the price (mean = 1.6), fast service delivery (mean = 1.9), fuel quality (mean = 1.9), and trained personnel (mean = 2.3) arc used to a large extent by oil companies to differentiate their products. On the other hand, quality of engine oil (mean = 2.5), friendly and helpful staff (mean = 2.5), payment method (mean = 2.9), station modernization (mean = 3.2), responsiveness (mean = 3.3) and location (mean = 3.4) are used to a moderate extent to differentiate products in the oil industry. It was also established that quality of promotions & special offers (mean = 3.5) and carwash & convenient store (mean = 3.5) are only used to a small extent by oil companies to differentiate their products. The standard deviations of 0.7 for both price and fast service delivery; and 0.8 for fuel quality shows that on the use of these attributes to differentiate products were close together. The large standard deviations such as 1.4 and 1.6 for payment method and responsiveness to customer needs respectively shows that scores about these attributes were more spread out and sparsely used.

Table 13: The extent to which oil companies use various attributes to differentiate products

	Price	Payment method	Fast service delivery	Fuel quality	Quality of engine lubricants	Quality of promotions &	Responsiveness	Modem stations	Friendly & helpful	Location of retail station	Trained personnel	Car wash & convenient store
Mean	1.6	2.9	1.9	1.9	2.5	3.5	3.3	3.2	2.5	3.4	2.3	3.5
Std. Deviation	0.7	1.4	0.7	0.8	1.0	1.4	1.6	1.5	0.9	1.4	1.2	1.2

••.5 Customers perception

L nder this section, the Oil companies were given three variables namely price, quality and speed of service and told to rank the three in order of importance of their customers expectations.

4.5.1 Oil companies' perception about customer's rank of quality

Table 14 shows that oil companies perceive customers to consider product quality as important (55%); most important (36%); and least important (9%).

Table 14: Oil companies' perception about customer's rank of quality

Rank	Frequency	Percentage
Most important	4	36.4
Important	6	54.5
Least important	1	9.1
Total	**11**	**100.0**

4.5.2 Oil companies' perception about customer's rank of price

Oil companies perceived customers to rank price as most important attribute (55%); important (36%) and least important (9%). As table 14 and table 15 show, from the oil companies view customers desire high quality products but they are price sensitive.

Table 15: Oil companies 'perception about customer's rank of price

Rank	Frequency	Percentage
Most important	6	54.5
Important	4	36.4
Least important	1	9.1
Total	**11**	**100.0**

4-5.3 Oil companies' perception about customer's rank of service

Results indicated show that it was perceived that customers rank service as least important (82%) and important (18%).

Table 16: Oil companies' perception about customer's rank of service

Rank	Frequency	Percentage
Important	2	18.2
Least important	9	81.8
Total	11	100.0

4.6 Extent of adoption of product differentiation by Oil companies

The extent to which Oil companies adopt different categories of product differentiation strategies was assessed using a five - point Likert scale. In order to determine the extent to which various categories were adopted by the oil companies, the scores of each attribute were analyzed to get the mean and standard deviation. The mean scores were rated in the following manner: 0 - 1.4 = Very large extent; 1.5 - 2.4 = Large extent; 2.5 - 3.4 = Moderate extent; 3.5 - 4.4 = Small extent; 4.5 - 5.0 = Very small extent. . The standard deviation involves subtracting the mean from each score to obtain the deviation. The standard deviation was used to measure the extent to which scores in the distribution deviate from their mean or average.

4.6.1 The extent to which oil companies handle differentiated product

The table 17 reveals that adoption of differentiated products was low among oil companies. Results indicate that oil companies to a large extent handle differentiated products such as unleaded premium motor spirit (mean = 2.4). To a moderate extent the companies use high sulphur diesel (mean = 2.8); fuel oil 125 (mean = 3.0); mineral oil based lubricants (mean = 3.0); health, safety and environment (mean = 3.2). It was also noted that oil companies to a small extent handle unleaded regular motor spirit (mean= 3.5); low sulphur diesel (mean = 3.5); fuel oil 180 (mean = 3.5); synthetic oil based lubricants (mean = 3.5); International standards of lubricants (mean = 3.5); lubricants approval by original equipment manufacturers (mean = 3.5). On the extreme however, it was revealed that oil companies to a very small extent handle additivated fuels (mean = 3.9). The low standard deviation of 1.3 for unleaded premium motor spirit implies that the scores on this attribute were close to the mean score (mean = 2.4) meaning that was a popular product. For the large standard deviation such as 1.7 - 1.9 shows that these attributes were more spread out from their means scores and hence implying that few firms were using them to differentiate their products but to a large extent.

Table 17: The extent to which oil companies handle differentiated products

	Unleaded regular motor Spirit	Unleaded premium motor SDirit	Additivated fuels	Low sulphur diesel	High sulphur diesel	Fuel oil 125	Fuel oil 180	Mineral oil based lubricants	Synthetic oil based lubricants	International Stds. of lubricants	Lubricants approval bv OEMs	Health, safety & Env't standards
Mean	3.5	2.4	3.9	3.5	2.8	3.0	3.5	3.0	3.5	3.5	3.5	3.2
Std. Deviation	1.5	1.3	1.4	1.8	1.3	1.4	1.8	1.9	1.9	1.8	1.8	1.7

CHAPTER FIVE

SUMMARY, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This section presents a summary of findings, discussions, conclusions and recommendations. Results have been discussed in line with the research objectives stated earlier in Chapter One. The section concludes by suggesting recommendations for adoption to improve product differentiation in the oil industry in Kenya and also suggestions on areas for further research.

5.2 Summary

The objectives of the study were to establish the strategies used by oil companies to differentiate their products in the Kenyan market; and determine the extent to which the different categories of petroleum companies have adopted product differentiation as a competitive strategy. Quantitative survey was adopted and semi-structured questionnaires were developed, tested, revised and delivered by the researcher to sampled respondents. The population of interest were major Oil companies based in Nairobi, which handled a base load allocation in excess of 500 metric tonnes. Based on base load of 500 metric tonnes and above, 16 companies were sampled and 11 respondents participated. Data was analysed using descriptive statistics such as mean scores standard deviations and percentages. Findings were presented in tables.

The study showed that more than half of the Oil Companies perceive their products similar to those of competitors. While the minority of the companies considered their products different in terms of product branding, safety and environment and use of special additivation. The study established that Shell uses many attributes to differentiate its products as compared to other oil companies. The company topped the list of oil companies in using quality and brand name to differentiate its products. However, Total, Chevron and Oilibya followed closely on quality and use of the brand. On the other hand, Independent petroleum dealers were ahead of other companies in the use of price to differentiate their products. Kenol Kobil and National Oil also exhibited considerable tendency to also use price as a strategy in differentiation. In addition, it was established that Oilibya differentiates its products through non-fuel products while Total's major differentiating feature was highlighted as service.

Fuel quality and price were perceived on equal ratings and as important for consumers while service was seen as the least important given the three variables. Despite high awareness of product differentiation strategies by Marketing Managers, it was found that adoption by Oil Companies to these strategies is very low.

5.3 Discussions

It was established that older firms have more product lines as compared to younger firms. This suggests that there is a relationship between the age of the firm and the number of product lines handled. As firms get more established, they gain more experience in the industry and enhance their experience to handle more products. It was further noted that ownership status has influence on the number of product lines carried by the firm. Foreign owned firms handled more product lines than locally owned firms. It may be argued that foreign firms being large multinationals are more financially endowed as compared to locally owned firms and can spare more money for increasing the range of product lines. In addition, the findings connote that foreign firms spread their risks by having a broadly diversified range of products. It is also worth noting that the older firms have made huge investments in the country by having a large retail network and building depot facilities for storage and handling of the petroleum products. Moreover, the Major Oil Companies also command a larger scale of operations and have depots in major towns such as Nairobi, Mombasa and Kisumu. The rest of the other independents enjoy hospitality, where they pay for storage and handling.

Results indicated that products from Shell Oil Company are differentiated using quality, price and brand name. It was further revealed that Shell tops the list of companies, which uses quality to differentiate their products. These findings tally with company's strategic direction and positioning, which emphasizes product quality. The company's retail outlets are branded to reflect high quality products offering to customers. The company claims to be additivating their products to offer customers more quality for the same price. In 2005 and 2006 Shell introduced Shell Diesel Extra and Shell Unleaded Extra respectively at no extra cost to consumers, with additivating elements to differentiate it from ordinary petrol. In November 2008, they have introduced a choice product Shell V-Power petrol an advanced petrol that is slightly expensive than the unleaded petrol, thereby offering customers more for more.

The Independent Petroleum Dealers are seen to use price as key differentiating attribute suggesting that they focus on price sensitive market segments. The findings reflect their competitive strategy, which is based on a lower price compared to established firms. Two factors come into play - the need for survival by pricing slightly lower than the established firms and the low cost of doing business as compared to large firms with high operational costs which are passed on to the consumers. Kenol Kobil, has adopted a pricing strategy of premium, as they are noted to be pricing higher than the current market price in a given location especially in the city centre. Recent debate on high international crude prices sparking escalation of local fuel prices, the Government owned National Oil is being used to set and benchmark local price scene with the support of the Government. The Government has openly declared that it will re-introduce price control mechanisms to cushion the effect of high prices being passed on to the consumers. Consequently, the move by the Energy Regulatory Commission, to enact The Energy Act, 2006, No. 12 of the proposed regulations in respect to the retail pump price of petroleum products (Standard newspaper November 14 2008 pp 38) refers. If the proposed is enacted the Commission will subscribe the maximum retail price on a monthly basis that the oil marketers shall sell, hence competition on price may not be sustainable in the near future.

It was indicated that Oil companies perceive price and quality as equally important to customers while service was considered as least important of the three variables.

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Based on these perceptions, it can be argued that Shell and Independent petroleum dealers are well positioned to appeal to customer needs and values. This also shows that consumers want a balance of the right quality at the right price. Or, they are seeking for quality fuels but they are not willing to pay for more.

Total differentiates its products through service and recently have announced through our local dailies plans to acquire Chevron in the East African region. (Daily Nation, 27 October 2008). If this deal materialises, then Total will grow and lead in market share and possess a large retail network. Oilibya is seen to have a strength in non-fuel offer meaning that it appeals to a certain market segment who are looking for a one stop shopping experience. They have partnered with fast food restaurants like Galitos and have a strong convenience retail shop branded 'On the Run'. More Oil companies are slowly adopting to this strategy like Kenol Kobil which has partnered with Kengeles Restaurants. The slow adoption of non-fuel business is due to the fact that majority of stations have a challenge in terms of space, and they would like to concentrate in the core business, which is marketing of fuel.

AJ1 Major Oil Marketers ride on usage of brand name to differentiate their products. Chevron's recent announcement in the media that they intend to exit the East African market may have influence their ability to increase their brand image and awareness. This implies that there will only remain two multinational oil companies - Shell and Total in the market. Total is seen as both multinational and a local company because they are publicly listed in the Nairobi stock exchange as well as a subsidiary of the giant French owned Total Pic. Kenol Kobil is also catching up in brand building as they are now increasing their media spent budget annually according to Steadman Research Group report 2007. In addition, they have merged the two companies and in Kenya they will trade under the Kenol brand. It is worth noting that Oilibya has not featured in the use of the brand name probably because it recently acquired Mobil and the brand is still new in the market with insufficient brand building activities in the market.

It was noted that price, service, quality, non fuel business and trained personnel are the major product differentiating factors in the oil industry. The findings concur with perceptions of oil companies on attributes they consider valued by customers since companies appear to differentiate their products along these key attributes. Results demonstrate that customers of oil products derive value from price, quality of products, and fast service delivery. It was noted that oil companies only to a small extent differentiate their products using promotions and special offers. Probably, the cost of crude and other operating expenditures do not allow for marketing activities. In addition, consumers' may perceive similarity of the products given the use of the country's infrastructure like the pipeline hence the firms see no need to invest in advertising.

Despite broadly recognizing product differentiation strategies used in the oil industry, it was noted that adoption of these strategies was low among oil companies in Kenya. These findings concur with findings by Marami (2006), which demonstrated that oil companies such as Caltex dropped oil product differentiation through the use of additives because of the inability to recover the cost of differentiation through pump prices alone.

5.4 Conclusions

From the findings of the study, it can be concluded that each company has a strategy in how they differentiate themselves from competition, be it on quality, price or non-fuel business. Shell has embraced broad based product differentiation focusing on customer values. The Independent petroleum dealers differentiate their products to target price sensitive segments of the market, for example the '*matatu*' market. Total, is recognised for their service delivery though it appealed to a small market segment since the industry perceives service as least important for consumers given the variables price, quality and service. Oilibya's differentiation strategy of non-fuel business may pay-off since it responds to needs of a market niche not exploited by other oil companies. The key product differentiation strategies in the oil industry are mainly auxiliary to the product except quality. These strategies include price, fast service delivery and trained personnel. While oil companies perceive pricc and quality as central to consumers, they lay less emphasize on service. Even though oil companies are aware about product differentiation strategies, they are reluctant to handle differentiated products, probably because of the cost element.

In conclusion the results suggest that it may be expensive to handle these differentiated products for firms like Shell or invest in training for service like Total or partnering with food restaurants or banks for non-fuel business for example Oilibya, differentiation on price is unsustainable given the eminent of the governments price control in retail pump prices. In the near future, the retail prices will be controlled and hence the customers will not consider price when choosing where to fuel from but other factors like: a brand that I can trust; quality service, convenient location, other non fuel offers like ATMs, and quality choice of fuels.

5.5 Recommendations

Product differentiation is a more sustainable competitive strategy due to the inherent difficulty of imitation. Unlike price-based competition, which is ruinous for the industry, differentiation can assist a firm to stretch its competitive edge in the industry. However, oil companies in Kenya have not fully exploited the potential of product differentiation. As a result, it is recommended that:

1. Oil companies need to exploit the gains of differentiation by investing on attributes valued by customers. This decision should be preceded by consumer survey to ascertain the specific differentiating attributes valued by customers.

2. Price is a key consumer concern and the Oil Marketers need to strike a balance between quality of product and price. Consumers are looking for quality products for their investments (cars) but they are not willing to pay a premium for it. In addition given the Governmental proposal to regulate the pump prices, competition based on price is unsustainable. There needs to be a paradigm shift to other differentiating factors such as service, quality, non fuel offers and so on.

5.6 Limitations of the study

1. The study was based on companies handling base load of 500 metric tonnes and above. This limited the number of companies considered for the study. The sampling method therefore limits findings to large companies. Further, findings may not represent the situation among small independent petroleum dealers.

2. Other service providers in the petroleum value chain were not considered for the study like Kenya Petroleum Refineries. This limits findings to only petroleum companies.

3. The study was also limited by inadequate financial resources which dictated that data collection be carried within Nairobi only.

5.7 Suggestions for future research

Suggested considerations for future research include the following:

- The cost - benefit analysis on product differentiation in the oil industry in Kenya.
- Consumer perceptions about oil product differentiation in Kenya. Consumers are not aware of the differentiation strategies adopted by the Oil Marketers whether price or quality. This lack of knowledge was evident in the lubricants and health, safety and environment given the dangerous nature of products handled such as gas and petrol.
- Consumer survey to ascertain the specific differentiating attributes they value in product and service offering in the Oil industry.

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APPENDICES

APPENDIX 1: LETTER OF INTRODUCTION

University of Nairobi,
School of Business,
P.O. BOX 30197,
Nairobi.

Dear Respondent,

RE: COLLECTION OF RESEARCH DATA

I am a postgraduate student in the above-mentioned University undertaking a **Management Research Project on "Product differentiation strategies adopted by oil companies in Kenya".**

You have been selected to form part of this study. You are kindly requested to assist in data collection by responding to the questions in the accompanying questionnaire. The information provided will exclusively be used for academic purposes only and will be treated with utmost confidence. You will also be provided with a copy of the final report upon your request.

Your cooperation is highly appreciated.

Yours faithfully,

Caroline Ndolo-Muthiani

APPENDIX II: QUESTIONNAIRE

STUDY ON PRODUCT DIFFERENTIATION STRATEGIES ADOPTED BY OIL COMPANIES

Tick Where Applicable V

PART A: GENERAL INFORMATION

1. **Name of** the company

2. Year of establishment

3. **How many** years has your company been operational in Kenya?

(a) Less than 20 Yrs ☐ (b) 20 - 29 Yrs ☐

(c) 30 - 39 Yrs ☐ (d) 40 - 49 Yrs ☐

(e) 50 - 59 Yrs ☐ (f) More than 59 Yrs ☐

4. **Ownership**

(a) Foreign owned ☐

(b) Locally owned ☐

(c) Independent Petroleum dealers ☐

(d) Subsidiary multinationals ☐

5. Number of permanent employees

(a) Less than 50 ☐ (b) 50 - 69 ☐

(c) 70 - 89 ☐ (d) 90-109 ☐

(e) 109- 129 ☐ (f) More than 130 ☐

6. Number of product lines

(a) Less than 5 ☐ (b) 5 - 9 ☐

(c) 10-14 ☐ (d) 15-19 ☐

7. Nature of business

a) Retail only ●

b) Retail and Export ●

c) Business to Business ●

d) Business to Consumer ●

e) All the above ●

Others (please specify)_

PART B: STRATEGIES USED BY OIL COMPANIES TO DIFFERENTIATE THEIR PRODUCTS

8. Which features make your products different from your competitors' products in the Kenyan market (*Elaborate on differentiating features of your Diesel, Unleaded petrol, Kerosene products, lubricants and LPG)1*

9. Which strategies are used by your competitors to differentiate their products?

	Pricing strategy	**Product quality**	**Service**	**Scale of operations**	**Brand Name**	**Non fuels business**
Kenol Kobil						
Shell						
Chevron						
National Oil						
Oilibya						
Total						
Independents Petroleum dealers						

10. To what extent does your company use the following attributes to differentiate its product (*Tick only one box for each attribute, where 1 = very large extent, 2 = large extent, 3 = moderate extent, 4 = small extent and 5 = very small extent).*

Attributes	1	2	3	4	5
Price					
Various payment modes					
Fast service delivery					
Quality of fuel					
Quality of engine oil/lubricant/motor oils					
Quality of promotions and special offers					
Response to customer needs					v
Modern stations					
Friendliness and helpful staff					
A corporate brand name					
Location of retail stations					
Highly trained sales personnel					
Offers non-fuel services like carwash, convenient store, food offer					

11. In order of importance *{Where I =most important, 2 = important, and 3 = least important)* **how do customers rank the following attributes?**

(place a rank for each attribute e.g. 1 for price)

Attribute	Rank order
Quality	
Price	
Speed of service	

PART C: EXTENT TO WHICH DIFFERENT CATEGORIES OF COMPANIES HAVE ADOPTED PRODUCT DIFFERENTIATION

12. Indicate the extent to which your company uses the following attributes to differentiate your products and services (*Tick only one box for each attribute; Where 5= Very small extent, 4 = Small extent, 3 = Moderate extent, 2 = Large extent, and 1 = Very large extent)*

Attribute	1	2	3	4	5
Unleaded (Octane 88) - Regular Motor Spirit					
Unleaded (Octane 91) - Premium Motor Spirit					
Additivated fuels					
Low Sulphur diesel (0.25 - 0.5%)					
High Sulphur diesel (1.0%)					
Fuel Oil 125					
Fuel Oil 180					
Mineral oil based lubricants					
Synthetic oil based lubricants					
International specifications/ standards of lubricants					
Lubricants approvals from Original Equipment Manufacturers					
Health, environment and safety standards					

Thank you for cooperation.

APPENDIX III: LIST OF OIL COMPANIES

KENYA PETROLEUM REFINERIES LIMITED
(INCORPORATED IN KENYA)

Thursday, October 23, 2008

Dear Carol.

RE: FINAL 302008 BASE LOAD ALLOCATION

Following your request for the companies that have a Baseload of over 500 metric tonnes Quarter 3 2008, please find below:

COMPANY NAME
ADDAX
BAKR1
CHEVRON
DALBIT
ENGEN
GALANA
HASS
TOTAL
TRITON
KENOL
KOBIL
LIBYAOIL
NOCK
OfLCOM
PETRO
SHELL

; -<a

Yours truly,

t O ^ V ^ A ^ X ^ v)
A M Mbogo V
Manager Hydrocarbon and Economics

P. O Dox 90401, Mombasa, Kenya
Tel. No. 254-041-2220684/2220967/2224251/3433510-19
Fax No. 254-041-3432597/3432603/2220658/2220619
Email: Kclin.;rw<'knrt.ct>.ki' *Cables:"OILREFINE"*