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THE RELATIONSHIP BETWEEN MARKET SEGMENTATION STRATEGY AND ORGANIZATIONAL PERFORMANCE OF SEED COMPANIES IN THE NORTH RIFT REGION, KENYA

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Abstract

The seed industry in Kenya has been dominated by competition emanating from many local seed producing and marketing companies. To achieve organization performance in the market, it is necessary that firms pursue strategies, which are difficult for competitors to copy. Market segmentation as a strategy may give the companies in this industry a competitive advantage that may eventually translate to improved organizational performance. However, the exact influence of this market segmentation on firm performance in the seed industry has not received considerable research attention and, therefore, much remains unknown regarding its impact. Thus, the main aim of the study was to establish the relationships between market segmentation strategy and organizational performance of seed companies in the Kenyan seed industry. The study adopted the descriptive survey approach targeting heads of departments, managers and staff of selected Seed companies in North Rift, Kenya. The study used a sample size of 115 obtained through a stratified random sampling technique. Data was collected using structured questionnaires. Data was analyzed using descriptive and inferential statistical methods such as means, correlations and multivariate regressions. The findings revealed that market segmentation strategy was an important product differentiation strategy influencing upto 35% organizational performance. Therefore, it would be salutary for the seed companies to invest more in modifying their products and marketing appeals to suit the target market segments. However, this should be done consistent with the segment as not all segments respond in the same way.

Keywords: Market segmentation strategy, Organizational performance, Seed companies

I. INTRODUCTION

In general, the concept of organizational performance is based upon the idea that an organization is the voluntary association of productive assets, including human, physical, and capital resources, for the purpose of achieving a shared purpose (Barney, 2001). Those providing the assets will only commit them to the organization so long as they are satisfied with the value they receive in exchange, relative to alternative uses of the assets. As a consequence, the essence of performance is the creation of value. So long as the value created by the use of the contributed assets is equal to or greater than the value expected by those contributing the assets, the assets will continue to be made available to the organization and the organization will continue to exist (Robert, 2004). However, it is becoming more evident that strategies pursued by the organization are crucial in enhancing organizational performance.

The concept of strategy originated from the Greek word “Stratego” denoting a plan to outdo and destroy ones enemies through effective use of resources (Thompson, Arthur, Gamble and Strickland, 2008). Techniques are systematic procedures, formulas, or routines by which tasks are accomplished. Strategies are methods or plans chosen to bring about a desired future, such as achievement of a goal or solution to a problem. Strategic management scholars agree with Porter (1980) that strategy is a competitive plan that relates to the overall pattern activities and provide a sense of direction to an organization (Johnson, Whittington and Scholes. 2011). To investigate the strategy and performance relationship, many studies utilize approaches found to be generalizable across industries, specifically those proposed by Porter in 1980 (Allen and Helms, 2006). The authors also concur with Porter (1980) that strategies are grand or generic. Grand strategies are long-term and can be customized to a specific firm, while generic strategies can be pursued by any type or size of business firm, including Sacco‟s (Wheelen and Hunger, 2008).

The notion that generic strategies can be a source of superior performance is as old as the idea of strategy itself and has provoked considerable interest and inquiry within the strategic management discipline (Livvarcin, 2007). However, credit for articulating a set of three generic strategies and developing them into a testable framework goes to Porter (Hahn and Powers, 2010). Porter (1980; 1985) proposes three generic competitive strategies for outperforming other firms in a particular industry, namely: cost leadership, differentiation and focus. Porter (1980) explains that the three strategies are an essential part of any effective business plan, which a firm can use to obtain a competitive market position. Porter (1985) further asserts that a firm performs best by choosing one strategy on which to concentrate. However, many authors argue a combination of these strategies may offer a company the best chance to achieve superior performance (Johnson et al., 2011; Johnson and Scholes, 2008). All the same, whatever strategy a business chooses, it must fit with the company and its goals and objectives to perform well (Hahn and Powers, 2010).

In the context of Business, performance measures market-related items such as market share, growth, diversification, and product development Gray (1997). Since the perception of these outcomes is contextual, the measures used to represent performance are selected based upon the circumstances of the organization(s) being observed. The measures selected represent the outcomes achieved, either good or bad (Robert, 2004). Measures of firm performance generally include such bottom-line, financial indicators as sales, profits, cash flow, return on equity, and growth. It is important to determine how a firm compares with its industry competitors when assessing firm performance (Dess and Robinson, 1984).With the multitude of competitive environments faced by firms in differing industries, knowing only absolute financial numbers such as sales, profits, or cash flow is not very illuminating unless viewed in the context of how well the firm is doing compared to their competition. Therefore, it is important to use an industry comparison approach when making firm performance assessments for organizations sampled from a wide variety of industries.

Sarah, Therese and Suzanne (2009) conducted a study titled „Differentiation Strategy, Performance Measurement Systems and Organizational Performance: Evidence from Australia‟. The purpose of this study was to empirically explore the relationships between differentiation strategy, performance measurement systems and organization performance within the manufacturing sector. The study found empirical support for the importance of using both non-financial and financial performance measures for firms pursuing differentiation strategies, such as product flexibility or customer service focus. The study also found that firms used both financial and non-financial performance measures to enhance both financial and non-financial organizational effectiveness. Non-financial measures were more actionable and future-oriented, and their use could improve an organization‟s capabilities in future planning and strategy implementation.

Khaled (2012) did a study titled „Differentiation and organizational performance: Empirical evidence from Jordanian companies‟ The study was designed to examine the impact of differentiation strategy on the organizational performance of Jordanian industrial companies.

To investigate this relationship, 33 industrial companies listed at Amman Stock Exchange by the beginning of 2010 were surveyed. Using multiple regression analysis, the study found that product differentiation strategy had no significant effect on organizational performance of such companies. The result contradicted the previous research (for example, Mosakowski 1993; Allen and Helms 2002) results which indicated a positive and significant relationship between product differentiation strategy and organizational performance. This result, however, was expected as Jordanian companies had followed the product differentiation only recently. The result indicated that Jordanian companies could not incorporate an effective differentiation strategy to date to affect and improve their performance positively.
A number of studies related to product differentiation strategy have been done in Kenya including but not limited to: Kederaet.al (2015), who focused on effects of product differentiation strategies on firm product performance of Kenya seed company (KSC). They found out that product differentiation influences market dominance. Despite these immerging consensus or the need for firms to differentiate their products in order to improve on organizational performance and the fact that competitive forces in the seed industry are determined by the degree of differentiation, little effort seem to be made by firms in this industry to harness the benefits associated with differentiating their products .A research gap exists in that, much of the research carried out fails to clearly show the relationship between product differentiation strategy and performance of seed companies. This study, therefore, sought to close the gap by examining the relationship that exists between market segmentation strategy and the organizational performance of seed companies in Kenya focusing on Seed Companies in the North Rift.

II. RESEARCH DESIGN AND METHODOLOGY

The study used the descriptive survey research design. Descriptive research design was chosen because it enables the researcher to generalize the findings to a larger population. The lessons learnt can be applied by other seed companies. This was applicable in this study since the study sought to investigate the relationship between product differentiation strategy and organizational performance of seed companies in Kenya. The researcher focused on three companies namely: Kenya seed; Pannar Seed, and; Western seed. This was because they are the biggest three seed companies in the North Rift. Multistage sampling was used to arrive at the required sample size of 115. Data was collected using pretested structured questionnaires. Data was analyzed using descriptive and inferential statistical methods such as means, correlations and multivariate regressions.

III. RESULTS AND DISCUSSIONS OF FINDINGS

Introduction

This chapter presents results arising from the analysis of data collected using questionnaires. The data collected was analysed using descriptive and inferential statistical methods for each variable and the findings presented in tabular summaries, and their implications discussed.

Market Segmentation Strategy in the Kenyan Seed Industry

The study sought to establish the relationship between market segmentation strategy and organizational performance of seed companies in the Kenyan seed industry. The status of this variable was described in terms of measurability and accessibility of the market and was rated on a 5 point Likert scale ranging from; 1 = strongly disagree to 5 = strongly agree. The results on this are summarized in Table 1.

Table 1: Market Segmentation Strategy in the Kenyan Seed Industry

Statements	Maximum	Minimum	Mean	Std. Deviation	Totals
With more knowledge about different segments, our marketers can better allocate the total marketing budget	1	5	4.52	0.698	115
Our marketers modifies our products and marketing appeals to suit the target segment	1	5	3.39	0.795	115
Our market segmentation facilitates setting up of realistic selling targets and priorities	1	5	4.41	0.793	115
Our management usually identifies new profitable segments which deserve special attention	3	5	4.05	0.691	115
Through our market segmentation strategies we are able to deal with competition more effectively by using resources more efficiently	2	5	3.47	0.683	115
Appropriate product packages can be developed for each market segment	1	5	3.58	0.699	115

Looking at the findings in Table 1, it is evident that the firms marketing strategies tended to be more focused on some items more that others as indicated by means above 4.0. In particular, the seed firms appeared to put more emphasis on facilitating the setting up of realistic selling targets and priorities (mean = 4.41) after identifying new profitable segments which deserved special attention (mean = 4.05). However, most (mean =4.52) of the respondents felt that with more knowledge about different segments, their marketers could better allocate the total marketing budget. With a comparatively lower mean of 3.47 the findings indicate that the seed companies were not so effective in dealing with competition more by applying their resources more efficiently through their market segmentation strategies. As such, they were not so keen in modifying their products and marketing appeals to suit the target segment (mean= 3.39) though they were capable of developing appropriate product packages for each market segment (mean = 3.58). Thus, it can be deduced from the findings that though the firms management through market segmentation could identify new profitable segments which deserve special attention, they were not aggressive enough implementing other key components of the strategy to deal with competition more effectively.

Correlation Analysis

These results of the correlation analyses are presented in Table2

Table 2: Summary of Correlations

		Organization Performance
Market segmentation strategy	Pearson Correlation	.350
	Sig. (2-tailed)	0.001
	N	115

The correlation analysis to determine the relationship between market segmentation strategy and organizational performance of seed companies in the Kenyan seed industry yielded a Pearson‟s product moment coefficient of correlation, $r = 0.35$, $p < 0.05$ indicating that a moderate and positive relationship existed between the two variables.

Regression Analysis

Table 3: Multiple Linear Regression Analysis Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate		
.350[a]	.1225	.1201	2.127		
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.707	9.977		2.276	.008
Market segmentation strategy	.367	.175	.350	2.406	.001
a. Dependent Variable: Organizational performance of seed companies					

It can be deduced from the findings in Table 3 that the model could explain up to 35% of the variations in organizational performance of seed companies in the Kenyan seed industry. In addition, the results indicate that the dependent variable, that is, the organizational performance of seed companies in the Kenyan seed industry, would change by a corresponding number of standard deviations when the respective independent variables change by one standard deviation.

IV. RESULTS AND DISCUSSIONS OF FINDINGS

The results revealed that market segmentation strategy was an important product differentiation strategy that affected organizational performance. However, the seed firms appeared to be more inclined in facilitating the setting up of realistic selling targets and priorities after identifying new profitable segments which deserved special attention but were not quite matching these efforts with resources and products. Thus, there was a feeling that the seed companies needed to invest more in acquiring knowledge about different segments so that their marketers could better allocate the total marketing budget. This could enable them to modify their products and marketing appeals to suit the target segment. These findings agree with Ndungu, Machuki and Murerwa (2014) who found that market segmentation strategy provides a competitive advantage in a market dominated by products of many competitors. Chamberline and Robinson (1996) also observed that when firms sell differentiated products, they gain some ability to adjust their prices, that is, they can sell output at very high price and produce small amount or sell its output at very low prices and produce greater amount. However, this aspect of market segmentation strategy was not being aggressively pursued by the seed companies in the North Rift region. This could be as a result of the limitations of the products itself which could not withstand several modifications at a given time.

V. CONCLUSIONS AND RECOMMENDATIONS

The study concludes that market segmentation was important in influencing organizational performance. Through market segmentation, it emerged, the seed companies could identify new profitable segments which deserve special attention but were not backing up this information with more aggressive resourcing and product development in order to deal with competition more effectively to improve organizational performance. Therefore, it would be salutary for the seed companies to invest more in modifying their products and marketing appeals to suit the target segment. But this should be done consistent with the segment as not all segments respond in the same way. The seed firms should also consider diversifying their products to improve their performance and market standing.

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