



QUALITY DIFFERENTIATION STRATEGIES: IMPLICATIONS FOR EDIBLE OILS MANUFACTURING FIRMS IN KENYA

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Abstract:

The study sought to establish the effect of quality differentiation strategies (product performance, conformance, and reliability) on the performance (sales volume, profitability, and market share) of edible oils manufacturing firms in Kenya. A causal research design was adopted for the study which was underpinned by the economic theory of product differentiation. The target population was 104 middle and top-level managers from the marketing departments of the edible oils manufacturing firms in Kenya. Complete enumeration was used to include all 104 respondents as the study's sample size. Primary data was collected using a structured questionnaire. Descriptive and inferential analysis was conducted using SPSS version 23 and the results were presented in table forms. The results revealed that quality differentiation strategies had a positive and significant effect on the performance of the edible oils manufacturing firms in Kenya with p values $0.001 < 0.05$. The study recommended that manufacturing firms should apply all the quality differentiation strategies and continuously conduct market research to identify the quality needs of the customers in order to implement strategies that will lead to quality products.

Keywords: quality differentiation strategies, firm performance, product performance, conformance, reliability

1. Introduction

Product quality is becoming an important organizational performance issue in both developed and developing nations (Dirisu, Iyiola & Ibidunni, 2013). The features of a product must be of benefit to what the consumers are seeking. Therefore, getting the

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quality of product demands an understanding of what consumers expect, this hence implies that a product should be of good quality in addition to doing what it claims to do as compared with the products of the rivals (Kotler & Keller, 2011). The need for product quality has become an integral part of many organizations and companies across the world with the hope that the application of product quality differentiation strategies is going to help them overcome various organizational issues and improve performance (Hajjat & Hajjat, 2014). The authors go further to explain that product quality differentiation has become a model to position a firm through which ventures are expected to deliver and offer a unique product that will improve organizational performance and success in the global market environment. More contemporary studies have indicated that product quality has a positive impact on business performance (Chin and Sofian, 2011; Odhiambo, 2018). This has seen numerous organizations embrace the promotion of product quality differentiation.

The fact that consumers around the globe are increasingly concerned with high-quality products at relatively good prices has led to product quality differentiation. In this sense, total quality is viewed as an essential prescription for survival, growth, and profitability. Several studies therefore indicate that companies could compete effectively and improve on performance by differentiating their output on a number of product quality dimensions (Chin and Sofian, 2011; Odhiambo 2018; Hajjat & Hajjat, 2014; Dirisu *et al.*, 2013). These dimensions include; aesthetics, perceived quality, serviceability, durability, reliability, and conformance. Conformance quality measures the success a firm has at producing products that are consistent with the specification, perceived quality which is generally measured in terms of the quality of products as perceived by the consumers, and value quality is a measure of a product relative to its price and quality/price of competing products.

Namara (2014) in her study on the effect of product quality on the organizational performance of the beverage industry in Uganda conceptualized quality differentiation in terms of perceived quality, product reliability, and product performance. Based on the conceptualization of product quality by all these previous studies, the current study concentrated on product performance, conformance, and reliability as the dimensions of product quality differentiation.

2. Statement of the Problem

Most firms, especially in the manufacturing sector are faced with stiff competition from alternative and substitute products forcing them to strive to gain a competitive advantage in the shared market arena by differentiating their products using various quality differentiation strategies. Products differentiated in terms of quality are usually perceived to be of value and in most occasions improve the performance of the firms by increasing sales volumes and market share. It is however not clear how true this perception is and most managers are unsure to what extent product quality differentiation can give the firm a competitive edge and improve its performance of the

firm because differentiation involves the additional cost of modifying the original product (Davicik and Sharma, 2015).

The main concern of most manufacturing firms is that quality differentiation could be an overrated strategy increasing the operational costs of the firms with no ability to improve the performance of these firms in return. Despite the manufacturing sector in Kenya being considered as the back of the economy and playing a major role in wealth creation and employment of thousands of youths, the average growth of the sector has been slower than the overall economic growth. The sector's contribution to the country's GDP has been declining over the years with its contribution to the GDP standing at 9.2% in the year 2016, 8.4% in the year 2017, and 7% in 2018 (KAM 2018).

According to the World Bank report (2014), the performance of Kenya's manufacturing firms has steadily declined since the 1970s with emerging firms in the sector having only a 35% chance rate of competing effectively and surviving in the market. In general, the sector has been struggling with stagnation in terms of size and structural inefficiencies which has led to low overall productivity. This is a clear indication that the manufacturing industry in Kenya is struggling with operational inefficiencies, performance challenges, and steep competition from other countries leading to profit warnings and poor performance of most of the firms in the sector.

2.1 Objective of the Study

To examine the effects of quality differentiation strategies on the performance of edible oils manufacturing firms in Kenya.

2.2 Research Hypothesis

H₀: Quality differentiation strategies have no significant effect on the performance of edible oils manufacturing firms in Kenya.

3. Literature Review

3.1 Theoretical Literature Review

The Economic Theory of Product Differentiation as proposed by Beath & Katsoulacos (1991) explains the prevalence of quality differentiated products in market economies to drive the market equilibrium and compares the social optima for both horizontally and vertically differentiated products. According to the theory, vertical product differentiation can be measured objectively by any consumer especially when comparing two similar products whose quality and price can be clearly identified and ranked by the consumers. The major concept in the theory is that all consumers prefer higher quality products if two distinct products are offered at the same price. A product can be differentiated using various quality attributes but what really matters is the relationship between the customer's willingness to pay for the quality improvements and the increase in cost per unit that comes with such improvements.

3.2 Empirical Literature Review

Le and Lei (2018) in their study on innovation quality and competitive advantage using structural equation modeling from 279 Chinese firms found out that innovation quality plays a significant role in the competitive advantage of the firms. The study was conducted on Chinese firms while the current study was conducted in Kenya to address the geographical gap since China's economic status and industrial advancement are much higher than that of Kenya. The study also employed a structural equation modeling method while the present study employed an explanatory research design which was necessary to fill the methodological gaps.

A study conducted by Bos, Marini, and Saulle (2020) on quality differentiation and cartel stability using mathematical modelling techniques found out that quality differentiation leads to price increases which eventually leads to stability in market share and performance of the firms. This study was conducted using mathematical assumptions in oligopolistic environments, a gap that the current study sought to fill by conducting the current study in a perfect competition market which is a different market to the oligopoly market.

In their study conducted in Germany on quality differentiation in the power sector, Salah, Flath, Schuller, Will and Weinhardt (2017) conducted a value-based economic assessment of the energy services sector in Germany which deviated from the paradigm of marginal cost. This study was conducted in a marginal cost paradigm and used the morphological design theory to find out the effect of quality differentiated energy services on the demand and capacity adequacy of consumers. The findings of the study revealed that demand and economic value of the quality differentiated energy services increased drastically among consumers of the product.

Molina-Azorín, Tarí, Pereira-Moliner, Lopez-Gamero, and Pertusa-Ortega (2015) in their study on the effects of quality management on competitive advantage using a mixed method approach in the Spanish hotel Industry found out that quality is paramount and permits the improvement of competitive advantage terms of both cost and differentiation in the hotel industry. This study was conducted in a different industry to their study hence it addresses the industrial gap. Furthermore, the study employed a mixed method design yet the current study adopted an explanatory reach design. Moreover, their study was conducted in Spain while the current study was conducted in Kenya which is a developing country with different economic power.

A study conducted by Dirisu *et al.* (2013) in Nigeria focused on product quality differentiation as a tool of competitive advantage and optimal performance which was conducted in Unilever PLC using a survey research design. The results of the study indicated that there is a statistically significant positive correlation between high product quality and the sales growth of an organization. However, there was a methodological gap as the study used a survey research design while the current study used an explanatory research design.

Namara (2014) analysed the effect of product quality on the organizational performance of the beverage industry in Uganda. The study findings revealed that

perceived product quality, product reliability, and product responsiveness positively affect organization performance. The study was a case study of Nile Breweries in Uganda thus making it difficult to generalize the findings to other industries. This study filled the gap by focusing on a different industry and adopting an explanatory research design.

Adio, Bananda, and Eluka (2018) conducted a study in Nigeria on product differentiation and competitive advantage in the telecommunication sector. The results of the study indicated that product quality differentiation had a positive impact on the market share of telecommunication firms in Nigeria and at the same time, service differentiation had a positive impact on the firms' overall corporate image. The study further concluded that there was a significant positive effect of differentiation strategy on the competitive advantage of telecom firms. The current study was conducted in the manufacturing sector in Kenya and employed explanatory design to draw the geographical, methodological, and industrial knowledge gaps and further incorporate other aspects of quality differentiation like product conformance and reliability.

Odhiambo (2018) conducted a study on product differentiation, customer loyalty, and market share in the oil marketing industry in Kenya which adopted a descriptive cross-sectional survey design where 35 oil manufacturing companies in Kenya were sampled. The study found out that there was a very low adoption rate of product differentiation strategies within the oil manufacturing firms in Kenya with the most applied being quality differentiation and the least being price differentiation. Nevertheless, quality and price differentiation were found to have a strong positive correlation to customer loyalty and market share.

Njeka, Okello, & Otinga (2019) conducted a study on the influence of product differentiation strategy on the growth of supermarkets in Kakamega County. The study adopted a descriptive survey design where data was collected from 121 officers from 7 supermarkets in Kakamega County. The findings of the study indicated that Product range, quality differentiation, and product value additions were significant predictors of the perceived growth of supermarkets in Kakamega. The study also concluded that product differentiation strategies if timely applied can attract new customers while retaining old ones through brand loyalty tactics. Since this study was conducted in supermarkets using a descriptive survey design, the current study filled this gap by focusing on edible oil manufacturing firms using an explanatory research design.

Kibithe and Chebii (2018) using a descriptive survey design conducted a study on the influence of service quality differentiation strategy on customer loyalty in commercial banks within Nakuru municipality and observed that service quality differentiation does not significantly affect customer loyalty. The study recommended that more studies to be undertaken in other sectors of the economy, a knowledge gap which the current study filled by conducting a similar study in the manufacturing sector.

4. Conceptual Framework

Figure 1: Conceptual Framework



Source:
Researcher (2023).

5. Methodology

The study employed a causal research design which enabled the researcher to identify the nature and the extent of the cause-and-effect relationship between the dependent and independent variables. The study was conducted in 3 selected edible oils manufacturing firms which included; Unilever Kenya Limited, Bidco Africa, and Kapa Oil Refineries. The 3 firms were selected out of a total of 10 edible oils manufacturing firms in Kenya because they hold the largest market share in the sector and the edible oils sub-sector was selected because it is the only sector in Kenya that is regionally competitive in the manufacturing industry (KAM 2018).

The study targeted 104 top and middle-level employees working in the sales and marketing department of the 3 selected edible oil manufacturing firms and since the population was small, a census of all the 104 respondents was conducted. Purposive sampling was used to sample the marketing managers and brand managers while simple random sampling was used to sample the sales representatives. A structured questionnaire was used to collect data. Data was analysed using SPSS version 23 as the statistical tool and presented using tables.

6. Results and Discussions

Based on the results from Table 4.1 below, 83.5% (71) of the respondents confirmed that the firms have developed quality differentiation strategies while only a few 16.5% (14) indicated no presence of quality differentiation strategies. The results confirmed that product performance 61.2% (52) and product conformance 48(56.5%) were the main quality differentiation strategies adopted by the firms while product reliability 38(44.7%) was the least adopted strategy. The study results further revealed that quality differentiation strategies adopted by the firms have caused an increase in sales volume 55(64.7%), an increase in profits 58(68.2%), and an increase in market share 45(52.9%).

Table 4.1: Effect of Quality Differentiation Strategies on Firm Performance

Variables	Yes	No
Firms having developed any quality differentiation strategies.	71(83.5%)	14(16.5%)
Improved product performance being adopted by the firm as a quality differentiation strategy.	52(61.2%)	33(38.8%)
Product conformance to customer requirements being adopted by the firm as a quality differentiation strategy.	48(56.5%)	37(43.5%)
Product reliability being adopted by the firm as a quality differentiation strategy.	38(44.7%)	47(55.3%)
Have the quality differentiation strategies adopted by the firm caused an increase in sales volume.	55(64.7%)	30(35.3%)
Have the quality differentiation strategies adopted by the firm caused an increase in profits.	58(68.2%)	27(31.8%)
Have the quality differentiation strategies adopted by the firm caused an increase in market share.	45(52.9%)	40(47.1%)

Source: Research Data (2022).

According to Le and Lei (2018), increasing competition forces firms to engage in various forms of differentiation with the focus being quality improvement.

Dirisu *et al.* (2013) on the other hand noted that, being one of Porter’s generic strategies, the quality differentiation strategy has remained alive and common among many business entities since most consumers are looking for quality products that they consider value for their money.

Molina-Azorín *et al.* (2015) affirmed that quality differentiation is paramount and permits the improvement of a product's competitive advantage in terms of both cost and perceived value which leads to an increase in the sales volume of the product.

From the results in Table 4.2 below, most of the respondents indicated a very high to moderate extent to which quality differentiation strategies adopted by the firms have been applied to the various product categories with the highest application being on edible oils 69(81.1%) followed by home care products 66(77.7%) and the least on personal care products 60(70.6%). The results also indicated a very high to moderate extent to which quality differentiation strategies adopted by the firms have affected the performance of personal care products 70(82.4%), home care products 63(74.1%), and edible oils 61(94.1%). The results further revealed that quality differentiation strategies adopted by the firms have affected the general firm performance to a high extent 36(42.4%).

Njeka, Okello, & Otinga (2019) affirmed that in as much as quality differentiation strategy has proven to be effective in various product categories, the type and nature of the products in the supermarkets are the major determinants for the adoption of quality differentiation strategies.

Le and Lei (2018) and Dirisu *et al.* (2013) agreed on the fact that the type and nature of a product are significant determinants of the effects of strategies adopted.

Table 4.2: Effect of Quality Differentiation Strategies on Product Categories

Variables	Very high extent	High extent	Moderate extent	Low extent	No extent
The extent to which quality differentiation strategies adopted by the firm have been applied to personal care products	10(11.8%)	30(35.3%)	20(23.5%)	20(23.5%)	5(5.9%)
The extent to which quality differentiation strategies adopted by the firm have been applied to home care products	21(24.7%)	27(31.8%)	18(21.2%)	17(20%)	2(2.4%)
The extent to which quality differentiation strategies adopted by the firm have been applied to edible oils	15(17.6%)	29(34.1%)	25(29.4%)	14(16.5%)	2(2.4%)
The extent to which quality differentiation strategies adopted by the firm have affected the performance of personal care products	25(29.4%)	27(31.8%)	18(21.2%)	10(11.8%)	5(5.9%)
The extent to which quality differentiation strategies adopted by the firm have affected the performance of home care products	24(28.2%)	26(30.6%)	13(15.3%)	12(14.1%)	10(11.8%)
The extent to which quality differentiation strategies adopted by the firm have affected the performance of edible oils	27(31.8%)	15(17.6%)	19(22.4%)	13(15.3%)	11(12.9%)
The extent of the effect of quality differentiation strategies on the general firm performance	12(14.1%)	36(42.4%)	32(37.6%)	5(5.9%)	0(0.0%)

Source: Research Data (2022).

The results from Table 4.3 below indicated an increasing status of annual sales volume of 46(54.1%), annual profits of 40(47.1%), and market share of 51(60.0%) as a result of the adoption of quality differentiation strategies. This trend shows that the performance of the firms increased due to adoption of the quality differentiation strategies.

According to Namara (2014), quality differentiation improves perceived product quality, product reliability, and product responsiveness which positively affect sales volume.

Bos, Marini, and Saulle (2020) also agreed that quality differentiation played a significant role in the increase of a firm's profits while Odhiambo (2018) affirmed that quality differentiation was found to have a strong positive correlation to market share.

Table 4.3: Performance of the Edible Oils Manufacturing Firms

Variables	Increasing	Static	Decreasing
The status of annual sales volume due to the adoption of quality differentiation strategies.	46(54.1%)	27(31.8%)	12(14.1%)
The status of annual profits due to the adoption of quality differentiation strategies.	40(47.1%)	37(43.5%)	8(9.4%)
The status of market share due to the adoption of quality differentiation strategies	51(60.0%)	32(37.6%)	2(2.4%)

Source: Research Data (2022).

Table 4.4: Model Summary for Quality Differentiation and Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.442 ^a	.196	.095	1.1040

a. Predictors: (Constant), Quality Differentiation Strategy

Source: Research Data (2022).

From the study findings in Table 4.4 above, the value of r-square is 0.196. This implies that 19.6% of the variation in performance of selected edible oils manufacturing firms in Kenya was explained by quality differentiation strategy. Given that the r-square was not equal to zero, the study assumed that the model was a good fit for the data. However, to further confirm the goodness of fit of the model, ANOVA was conducted. The results of the ANOVA are summarized in the following Table 4.5.

Table 4.5: ANOVA for Quality Differentiation and Performance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	13.019	1	4.219	1.945	.001 ^b
	Residual	14.727	8	.158		
	Total	27.747	9			

a. Dependent Variable: Performance

Source: Research Data (2022).

The ANOVA uses the F-statistic to test the null hypothesis that all the coefficients are equal to zero against the alternative hypothesis that at least one of the coefficients is not equal to zero. From the findings in Table 4.5 above, the F-statistic = 1.945 has a p-value of 0.001, which is < .05. The decision is to reject the null hypothesis that all the coefficients are equal to zero and instead accept the alternative hypothesis that at least one of the coefficients is not equal to zero. The conclusion is that at 0.05 level of significance, the ANOVA test indicated that in this model the independent variable namely, quality differentiation strategy is important in predicting the performance of selected edible oils manufacturing firms in Kenya as indicated by significance value = 0.001 which is less than 0.05 level of significance ($p = 0.001 < 0.05$). The conclusion based on such findings is that the model is a good fit; hence, a need to establish the coefficients alongside their significance as illustrated in the following Table 4.6.

Table 4.6: Coefficients of the Regression between Quality Differentiation and Performance

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.923	1.433		0.807	.443
Quality Differentiation Strategy	.180	.087	.442	1.395	.001

a. Dependent Variable: Performance

Source: Research Data (2022).

From Table 4.6 above, the p-value of the coefficient to quality differentiation strategy is $0.001 < 0.05$. In this case, the decision is to reject the null hypothesis that quality differentiation strategy has no significant effect on the performance of selected edible oils manufacturing firms in Kenya. This leads to accepting the alternative hypothesis that quality differentiation strategy has a significant effect on the performance of selected edible oils manufacturing firms in Kenya. Based on such findings, the study concludes that quality differentiation strategy had a significant influence on the performance of selected edible oils manufacturing firms in Kenya (t-statistic=.1.395, p-value = $0.001 < 0.05$).

Letting Y be performance and X_3 be designed differentiation strategy, using the regression coefficients in Table 4.6 above, we have:

$$Y = \beta_0 + \beta_3 X_3 \tag{1}$$

$$Y = 2.923 + 0.180 * X_3 \tag{2}$$

Looking at the coefficient to quality differentiation strategy, which is positive 0.180, the study further concludes that quality differentiation positively affects the performance of selected edible oils manufacturing firms in Kenya. Thus, for every unit increase in quality differentiation strategy, there was a corresponding increase in the performance of selected edible oils manufacturing firms in Kenya by 0.18. Since one unit increase in design differentiation strategy leads to a less than one unit increase in the performance of the selected edible oils manufacturing firms in Kenya, the study concludes that the effect of the design differentiation strategy on performance is relatively weak.

The findings of this study corroborate with those of Bos, Marini, and Saulle (2020) which established that quality differentiation leads to price increase which eventually leads to stability in market share and performance of the firms.

Similar findings were evident in the study by Salah *et al.* (2017) who posits that when products are differentiated by quality, their economic value and demand increase drastically among consumers of the product leading to increased sales, profit margins, and market share.

In their study, Le and Lei (2018) indicated that when an entity engages in a quality differentiation strategy, it becomes relatively easy to attract and retain customers.

Attracting and retaining customers provide the market which would then lead to increased sales, market share, and even profits, the main metrics of performance.

In another study, Molina-Azorín *et al.* (2015) established that quality differentiation was paramount and permitted the improvement of competitive advantage in terms of both cost and differentiation leading to improved firm performance.

A study by Namara (2014) also found out that perceived product quality, product reliability, and product responsiveness positively affect organization's performance.

According to the findings by Dirisu *et al.* (2013), product quality is becoming an important competitive issue. Consistent with the present study findings, Njeka, Okello, & Otinga (2019) and Odhiambo (2018) also noted that product quality differentiation has a positive impact on business performance.

7. Conclusion

The study rejected the null hypothesis and concluded that the quality differentiation strategy had a significant effect on the performance of selected edible oils manufacturing firms in Kenya. Quality differentiation strategy was found to have a significant positive effect on the performance of the edible oils manufacturing firms with a t-statistic of 1.395 and p-value of 0.001 which was less than 0.05.

8. Recommendations

The study recommends that manufacturing firms should continuously conduct market research to identify the quality needs of the customers and to continuously monitor the changing tastes and preferences of their target consumers to implement strategies that will lead to products that can meet the needs of the consumers. Firms should apply all three quality differentiation strategies in all their product categories and incorporate new and innovative quality differentiation aspects in their products in line with the needs of the consumers to improve their quality which will in turn lead to improved firm performance in terms of sales volume, market share and profits.

Acknowledgment

I wish to acknowledge the effort and input of the following groups of people without whom this article would not have been possible:

- 1) Members of the entire school of Business and Economics of Jaramogi Oginga Odinga University of Science and Technology, Kenya; both academic and administrative staff for their tireless assistance and support.
- 2) The research assistants for their cooperation and the good work they did in assisting with data collection.
- 3) The marketing managers, brand managers, sales representatives, and other members of staff of Bidco Africa, Kapa Oil Refineries Ltd and Unilever Kenya Ltd, a big thank you for your cooperation.

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