# Influence Of Product Quality Differentiation Strategies On Client Retention In Kenya Commercial Bank Kisii Central Sub-County, Kenya

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## Abstract

The Kenyan banking sector is facing stiff competition in terms of customer retention due to the increased competition in the sector. Customer retention is the goal of preventing customers from switching to the competitor. It is the way in which firms focus their efforts on existing customers in an effort to continue doing business with them. In order to retain their customers in a competitive market firms have been forced to come up with strategies that will give them competitive advantage. The purpose of the study was to assess the influence of broad differentiation strategies on client retention in Kenya Commercial Banks of Kisii Central Sub-County. The study was guided by Michael Porter's Five Forces Theory. It adopted a descriptive survey research design with a target population of 152 employees of the Kenya Commercial banks of Kisii Central Sub-County branch. The researcher collected data using questionnaires, interviews and document analysis. The instruments were validated by the supervisors while reliability of the instruments was determined through a pilot study where any Cronbach alpha coefficients of 0.7 was attained which was considered reliable enough. Quantitative data was analyzed using descriptive and inferential (correlation) statistics, and presented in tables. The study established that product quality differentiation strategies, design differentiation strategies, product innovations differentiation strategies and brand differentiation strategies positively and significantly influence client retention.

*Keywords: differentiation, product, innovation, quality*

## Background to the study

Customer retention is the goal of preventing customers from switching to the competitor. It is the way in which firms focus their efforts on existing customers in an effort to continue doing business with them. Still, customer retention can also mean the number of customers who stay with the provider in the course of an established period, such as a year (Dawes, 2009). In all cases, customer retention is a key factor in determining the success of any business in the current times. It impacts directly on long term customer lifetime value, which is a more profitable avenue for firms that seek to pursue growth and sustainability or those that seek to protect themselves from market shrinkage resulting from a contracting economy (Gee et al., 2008). As a result therefore, firms are under constant pressure to retain customers because of nature of the market whereby customer acquisition is slow (Gosselin and Bauwen, 2006). Organizations worldwide have various ways of enhancing their customer retention although the ways vary from one organization to another depending on the actual functions of each organization, (Gopaal, 2007).

In the last two decades, Jordan, Malasya has witnessed a rapid increase in the number of local and foreign banks resulted in high competition among banks and therefore they had to embrace differentiation strategy to ensure customers' retention (Al-alak and Tarabieh, 2011). In China, a study on the competitive strategies applied by banks from 1978 to1998 states that the sector witnessed important players' going in and out, the structure and intensity of the competition became different, and differentiation became the most important element of the competition in that period (Chan and Jamison, 2001). Besides, in Nigeria, Africa, firms face domestic and international competition, hence, many firms have come to realize that to remain sustainable; a strategy of product differentiation may be the best option than strategies based on efficiency and price (Dirisu, Iyiola & Ibidunni, 2013).
The current statistics shows that recruitment of new banking customers is very costly to commercial banks compared to retaining existing customers. On average, commercial banks will lose 20% of their customer base annually but by retaining as little as five percent of that base can lead to increased profits by double the existing figures (CBK, 2013). According to CBK report, considering the fact that banks spend a significant bulk of their marketing budget on an acquisition cost per customer. This average cost incurred in winning a customer into the business is higher as compared to the cost of non-financial services business would be subjected to for the same retention purpose. In a report by the KBA(2013), experts in the banking industry claim that banks struggle in trying to recover acquisition costs since a high customer defection rate makes the recovery even more difficult (CBK, 2013).

Over the last ten years, commercial banks in Kenya have continued to grow and this has mainly been attributed to fostering loyal customers. It costs retail banks as much as six times more to attract a new customer as it does to retain an existing one, and yet for many years the industry has not always focused on customer loyalty and the opportunities among its existing client base, (Ernst & Young, 2010). Kenya Commercial Bank has experienced decreases fast as a financial institution due to financial losses suffered by investors/clients compelling them to invest elsewhere. This financial loss has affected the banking industry and investors resulting in less credit being available for clients (Young, 2005). Previous researchers have recorded the importance of customer retention in an effort to improve performance of commercial banks. However, there still lacks in depth understanding of which strategy is ideal for customer retention (Mugambi and Kagiri, 2013) therefore creating a gap in the literature.

**Statement of the Problem**

The necessity to remain competitive as a result of changes in clients' needs has been a key preserve of most banks where as a service industry, launching and enhancing new products and services is a clear way of retaining and attracting new customers (Mugambi & Kagiri, 2013). Therefore, customer retention is possibly an effective tool that banks can use to gain a strategic advantage and survive in today's ever-increasing banking competitive environment (Bara, 2001) and broad differentiation strategy is important in helping banks to build customer loyalty and retain them, hence clients' retention (Arasa & Gathinji, 2014). Several studies have focused on the general competitive strategies adopted in Equity Bank Limited (Willike, 2010, Kibe, 2008 and Simiyu, 2011), Standard Chartered Bank (Mumo, 2012), by audit firms in Nairobi (Nyakang'o, 2007), Ecobank Kenya Limited (Maina, 2011), and Microfinance Institutions in Kenya (Mutai, 2012) Equity Bank of Kenya, however, fewer studies have concentrated on assessment of the effectiveness of competitive strategies adopted by Kenya Commercial Banks hence the need of this study.

**Literature Review**

The concept of competitive advantage has gained momentum due the global nature of the market place. Competitive strategy is the distinctive approach which a firm uses or intends to use to gain a competitive edge in the market place (Porter, 2008).The view competitive strategies as more skill-based and involving strategic thinking, creativity, execution, critical thinking, positioning and the art of warfare (Davidson 2001). Competitive strategy aims to establish a cost effective and sustainable position against the forces that determine industry competition. Competitive strategies are designed for situations where only partial information is available, whereas an optimal solution requires complete knowledge of all circumstances, or of the future (Ansoff and McDonnell, 1990). Therefore, broad differentiation strategy as one of the most competitive strategy is likely to influence organization performance (Langfield-Smith, 2003 and Arasa and Gathinji, 2014). Allen & Helms (2006) and Morshett et al., (2006) assert that broad differentiation helps firm build customer loyalty by offering unique products or services thus helping them to perform better than competitors. Differentiation strategy can be based on many dimensions such as; Product quality, Design and development, product innovations and unique brand (Atikiya et, al. 2015; Li and Zhou, 2010; Abu-Aliqah, 2012, Dirisu, Iyiola and Ibidunni, 2013).

The issues of product quality have been studied by many scholars (Ertekin and Aydin, 2010 and Sumutka and Neve, 2011). ‘Quality’ will viewed as a key market differentiator resulting in many organizations defining and improving processes, adopting and implementing total quality management systems, and attaining quality standard accreditation. Recently however, interest has been growing in the application of advanced process monitoring and control strategies to improve manufacturing operations. Quality, as a competitive advantage tool is seen as one of the fundamental ways in which individual businesses can successfully compete in the global market place. The choice of what product to purchase in most consumer markets is not majorly determined by the lowest price, a product’s quality could be a determining factor (Matsa, 2009). Morgan, Kaleka & Katsikeas, (2004) measured product competency (differentiation advantage) by: higher product quality, packaging, design and style. The issues of product quality have been studied by many scholars (Ertekin and Aydin, 2010 and Sumutka and Neve, 2011).

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Product design is defined as the totality of features that affect how a product looks, feels, and functions. A well-designed product offers both functional and aesthetic benefits to consumers, which could become an important source of differentiation (Koter and Keller 2011). Researchers have found that there is a significant relationship between competitive advantage and the sales-based performance of organizations, when sales-based performance will measured by the level of sales revenue, profitability, return on investments, productivity, product added value, market share and product growth (Wang & Lo, 2003).

From level of empirical research, Strandholm & Kumar (2003) insist that there is a positive relationship between external environmental analysis style and overall organizational performance and the ability to gain a competitive advantage. "Design is illustration look, which involve line, shape and particular affecting consumer awareness towards a brand", (Frings, 2005). Most of the consumers who are fashion aware are also brand conscious that's why which brands that provide elegant package magnetize loyal consumers who are trend aware. Fashion leaders or followers genially buy or to frequently acquire products from those stores that are very fashionable and trendy. A research conducted by Duff (2007) " explore the niche market in women's cosmetics, and the outcomes explored that cosmetics buyers will be faltering more fashion aware and the customers will be demanding for the products which are more attractive and new designed; furthermore, consumers have an inclination to use special makeup designs for different occasions." A well-designed product can also be a point-of-difference in the marketplace aiding consumer acceptance through its ease of use, durability, reliability, or packaging; therefore, serve as a source of competitive advantage. Irrespective of the design, it is important that the product meets the consumers' definition of a basic product. Once that is achieved, design can be a powerful marketing asset for the organization (Koter and Keller 2011). Differentiation is when a firm or brand outperforms rival brands in the provision of a feature(s) such that it faces reduced sensitivity for other features (Sharp & Dawes, 2001).

**Research Methodology**

The study was guided by Michael Porter's Five Forces Theory. It adopted a descriptive survey research design with a target population of 152 employees of the Kenya Commercial banks of Kisii Central Sub-County branch. The researcher collected data using questionnaires, interviews and document analysis. The instruments were validated by the supervisors while reliability of the instruments was determined through a pilot study where any Cronbach alpha coefficients of 0.7 was attained which was considered reliable enough.

Quantitative data was analyzed using descriptive and inferential (correlation) statistics, and presented in tables.

**Findings**

***Influence Of Product Quality Differentiation Strategies On Client Retention In Kenya Commercial Bank Kisii Central Sub-County.***

*Table1: Quality Differentiation Strategies On Client Retention*

| Statements | Mean | Std. Dev. |
|---|---|---|
| There is a measurable relationship between customer satisfaction and customer retention at our bank. | 4.213 | 0.983 |
| Quality service, switching barriers and customer retention programmes are employed by the bank. | 4.234 | 0.587 |
| Unique product features maintained by the Kenya Commercial Bank enhances clients retention | 4.313 | 0.453 |
| This bank has adopted various retention strategies depending on business type and the environment. | 4.134 | 0.476 |
| Time exceeding five years is regarded as a successful effort of customer retention at our bank. | 4.096 | 0.049 |
| Reliability of products maintained by the Kenya Commercial Bank improves clients retention | 4.211 | 0.085 |
| There are strict product quality control procedures through TQM, hence enhanced clients' retention | 4.028 | 0.291 |
| Unique serviceability maintained by the Kenya Commercial Bank enhances clients retention | 4.073 | 0.231 |

Key: 1=strongly Disagreed, 2= Disagreed, 3= neutral, 4= Agree and 5= strongly Agree

The results in table 1 show that the respondents agree (mean 4.000) that there is a measurable relationship between customer satisfaction and customer retention at our bank; Quality service, switching barriers and customer retention programmes are employed by the bank; Unique product features maintained by the Kenya Commercial Bank enhances clients retention; The bank adopted various retention strategies depending on business type and the environment; Time exceeding five years was regarded as a successful effort of customer retention at our bank; Reliability of products maintained by the Kenya Commercial Bank improved clients retention; There are strict product quality control procedures through TQM, hence enhanced clients' retention and that Unique serviceability maintained by the Kenya Commercial Bank enhanced clients retention.

*Table 2: Correlation between Product Quality Variables and Clients' Retention*

| **Product quality** | | | **Clients' Retention** | |
|---|---|---|---|---|
| | | | Loyalty | Positive word of mouth |
| Spearman's rho | Reliability | Correlation Coefficient | .531** | .534** |
| | | Sig. (1-tailed) | .000 | .000 |
| | | N | 144 | 144 |
| | Serviceability | Correlation Coefficient | .522** | 521** |
| | | Sig. (1-tailed) | .000 | .047 |
| | | N | 144 | 144 |

The results in table 2 show that reliability as variable of product quality positively and significantly influence loyalty and positive word of mouth (variables of client retention) at (r=.531, p<0.01 significant level) and (r=.534, p<.01 significant level) respectively.

The results also show that serviceability as variable of product quality positively and significantly influence loyalty and positive word of mouth (variables of client retention) at (r=.522, p<0.01 significant level) and (r=.534, p<.05 significant level) respectively.

Reliability and serviceability were merged using transformation technique to form product quality factor while loyalty and positive word of mouth were merged to form client retention factor. The two factors were then correlated as shown in table 9;

*Table 3: Correlation between product quality and Client retention*

| | | | **Client retention** |
|---|---|---|---|
| Spearman's rho | **Product quality** | Correlation Coefficient | .931** |
| | | Sig. (1-tailed) | .000 |
| | | N | 144 |

The results in table 9 show that product quality positively and significantly influenced client retention at r=-.931**, p<.001 significant level contributing 86.7% variability to client retention when other factors were held constant.

## Conclusion

The study established that product quality differentiation strategies, design differentiation strategies, product innovations differentiation strategies and brand differentiation strategies positively and significantly influence client retention.

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