

# Influence of Product Quality Differentiation Strategies on Client Sustenance in Barclays Bank-Kisii Branch, Kenya

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## Abstract

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. Thus, the purpose of the study was to assess the influence of differentiation strategies on client sustenance in banking industry in Barclays Bank-Kisii Branch, Kenya. The study adopted a descriptive survey research design with a target population of 30 employees of the Barclays bank Kisii branch. The researcher collected data using questionnaires, interviews, observation and document analysis. The study established that product quality, design and development, product innovation, brand differentiation positively and significantly influence clients' sustainability. The study recommends that in order to enhance clients' sustainability, the banks should put in place product quality differentiation strategies in terms of Features, Reliability, Procedures and Serviceability, put in place design and development differentiation strategies in terms of Product look, Functionality, Aesthetic and Feels, put in place product innovations differentiation strategies in terms of technology, research, and New products development and put in place brand differentiation strategies in terms of brand name, Strong brand identification, Brand quality and Brand design

**Keywords:** *Brand, differentiation, quality, differentiation*

## Background to the Study

Extreme competition in domestic and international markets has placed greater pressure on banks to seek ways to achieve a competitive advantage that ensures clients sustainability (Johnson & Scholes, 2002 and Pearce & Robinson, 2005). According to Thompson and Strickland, (2010), firm is said to have competitive advantage whenever it has an edge over its rivals in securing and retaining customers. Therefore, differentiation strategy as one of the most competitive strategy is likely to influence clients' sustainability (Langfield-Smith, 2003 and Arasa and Gathinji, 2014). Allen & Helms (2006) and Morshett et al., (2006) assert that 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).

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, Malaysia 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' sustainability (Al-alak and Tarabieh, 2011). In China, a study on the competitive strategies applied by banks from 1978 to 1998 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 and Ibidunni, 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). Barclays 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. The banking environment in Kenya has, for the past decade, undergone many regulatory and financial reforms. These reforms have brought about many structural changes in the sector and have also encouraged foreign banks to enter and expand their operations in the country (Kamau, 2009). Kenya's financial sector is largely bank-based as the capital market is still considered narrow and shallow (Ngugi et al, 2006). Banks dominate the financial sector in Kenya and as such the process of financial intermediation in the country depends heavily on commercial banks (Kamau, 2009). In fact, Oloo (2009) describes the banking sector in Kenya as the bond that holds the country's economy together. Sectors such as the agricultural and manufacturing virtually depend on the banking sector for their very survival and growth. The performance of the banking industry in the Kenya has improved tremendously over the last ten years, as only two banks have been put under CBK statutory management during this period compared to 37 bank-failures between 1986 and 1998 (Mwega, 2009).

### **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 and Kagiri, 2013). Barclays Bank is faced with a rapidly changing competitive landscape that is putting pressure on its relevance and customer retention. Faced with this new environment it is imperative that competitive strategies are found which will ensure client sustenance (John Merhmann, 2003). 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). Differentiation strategy is important in helping banks to build customer loyalty and retain them, hence clients' sustenance.

Several studies had focused on the general competitive strategies adopted in Equity Bank Limited (Chege, 2008; Gitonga, 2008; Kibe, 2008 and Simiyu, 2011), Standard Chartered Bank (Mumo, 2012), commercial banks (Warucu, 2004), by audit firms in Nairobi (Nyakang'o, 2007), Ecobank Kenya Limited (Maina, 2011), Kenya Commercial Bank (Gakenia, 2008), Microfinance Institutions in Kenya (Mutai, 2012) and Barclays Bank of Kenya (Wasike, 2010), however, fewer studies have concentrated on assessment of the effectiveness of competitive strategies adopted by Commercial Banks (Kungu et al.2014 and Sheikh, 2015), therefore recommend further study on the effect of competitive strategy and specifically differentiation on the performance (customer retention) of commercial banks in Kenya.

### **Literature Review**

The banking environment in Kenya has, for the past decade, undergone many regulatory and financial reforms. These reforms have brought about many structural changes in the sector and have also encouraged foreign banks to enter and expand their operations in the country (Kamau, 2009). Kenya's financial sector is largely bank-based as the capital market is still considered narrow and shallow (Ngugi et al, 2006). Banks dominate the financial sector in Kenya and as such the process of financial intermediation in the country depends heavily on commercial banks (Kamau, 2009). In fact, Oloo (2009) describes the banking sector in Kenya as the bond that holds the country's economy together. Sectors such as the agricultural and manufacturing virtually depend on the banking sector for their very survival and growth. The performance of the banking industry in the Kenya has improved tremendously over the last ten years, as only two banks have been put under CBK statutory management during this period compared to 37 bank-failures between 1986 and 1998 (Mwega, 2009).

When loans are provided to the very poor, the borrowers may not be able to use the loans effectively because they lack opportunities for profitable self-employment thus being unable to repay loan principal and interest (Robinson, 2001). Harper and Arora (2005) states that the economically active poor include micro-enterprises, small farmers and more recently the concept has expanded to include low income salaried employees, pensioners and poor households. Unlike the extremely poor, this group tends to be people who work on part-time jobs, own some private property or small business and are capable of working and carrying out projects. Barclays Bank and other financial institutions have been entering the microfinance market in increasing numbers over the past years. This Phenomenon (known as down scaling) together with that of upgrading is.0 resulting in a growing number of formal regulated institutions partially or totally moving into MF (Westley, 2006).

According to Delfiner, (2006), the first products generally developed by institutions entering MF are micro loans. However as the business progresses, institutions start offering a range of

products. The possibility of cross selling is another positive aspect that Barclays Bank takes into account when deciding to enter into this sector. This bank can also offer its clients a range of products, including banking services, means of payment, money transfer services and insurance. Barclays Bank has adopted its structure (contacts with external branches for fund transfer, ATM networks across the country) precisely for the delivery of these products. On the hand, Orr and Orr (2002), argue that the fundamental question revolves around incomes and its generation, although access to resources such as food may not always be dependent upon income. Nonetheless income is a central concern. Three main avenues exist for the poor to acquire income; these include jobs in local industry, creation of individual or family micro enterprise and cash crop farming.

Berdegue et al (2001) have propounded that there are distinct situations among small producers; market driven- where agriculture is a profitable and competitive enterprise; market oriented but asset constrained-.Where small farmers may have incentives to embark on market oriented agricultural innovation processes, but lack the capacity to fully respond to the favorable context and asset –constrained- where households lack most types of assets aside from unskilled labor and often posse very little land and operate in unfavorable environments. Lynch (2003), argues that companies can achieve competitive advantages essentially by differentiating their products and services from those of competitors and through low costs. Firms can target their products by abroad target thereby covering most of the market place, or they can focus on a narrow target in the market.

When a company differentiates its products it is often able to charge a premium price for its products or services in the market. Some general examples of differentiation include better service levels to customers, better product performance in comparison with the existing competitors. For a company employing a differentiation strategy, there would be extra costs that company would have to incur. Such extra costs may include high advertising spending to promote a differentiated brand image for the product which in fact can be considered as a cost and an investment (Porter 1980). According to Lynch, (2013), differentiation has many advantages for the firm, which makes use of the strategy. Some problematic areas include the difficulty on part of the firm to estimate if the extra costs entailed in differentiation can actually be recovered from the customer through premium pricing. Moreover, successful differentiation strategy of a firm may attract competitors to enter the company's market segment and copy the differentiated product.

Product differentiation being the most commonly used one of these two strategic typologies (Spencer, Joiner, and Salmon, 2009). Abu-Aliqah (2012) in his study adopted the following variables to measure product differentiation strategy: high product quality, fast delivery, design and new products, and unique product features. Today's business environment has been highly complex and competitive (Hellter, 2010). As a result firms have been under pressure to seek new ways of gaining competitiveness (Asch & Salamen, 2002). According to Yoo, Lemak and Choi (2006), the ability to outperform competitors and achieve above average profits lies in pursuit of appropriate business strategy. Globalization similarly, has led to more intense competition among firms (Baines and Langfield-Smith, 2003) as such a

differentiation strategy provides greater scope to produce products with more value. According to Barney & Hesterley (2006), differentiation involves offering product or service perceived as unique. Differentiation strategy can be based on many dimensions such as brand image, innovativeness, product quality, firm reputation. Nevertheless successful differentiation must be based on features that are difficult for rival firms to imitate. Allen & Helms (2006) aver that differentiation helps firm build customer loyalty by offering unique products or services thus helping them to perform better than competitors.

Morshett et al., (2006) further postulate that firms following a differentiation strategy strive to create and market unique products for varied customer groups. The aim is to create superior fulfilment of customer needs in one or several product attributes in order to develop customer satisfaction and loyalty which can often be used to charge a minimum price for the products. Acquaah & Ardekani (2006) coincides that differentiation firms are able to achieve competitive advantage over their rivals because of the perceived uniqueness of their products and services. Barney and Hesterley (2006) assert that the rarity of a differentiation strategy depends on the ability of individual firms to be creative in finding new ways to differentiate their products. As rivals try to imitate these firms' last differentiation move, creative firm will already be working on new moves and therefore always remain one step ahead of competition. Baum, Locke and Smith (2001) also suggest that firms implementing differentiation strategies strive to offer innovative and high-quality products to achieve the highest growth.

In differentiation strategy, the business concentrates achieving superior performance in an important customer benefit area valued by a large part of the market. Thus the firm seeking quality leadership, for example must make product with the best components, put them together expertly, inspect them carefully, effectively communicate their quality (Kotler, 2009). Differentiation strategies are based on offering buyers something unique or different that makes the firm's product or service distinct from that of rivals. The important assumption behind differentiation strategies is that customers are ready to pay premium price for a product that is distinct in some important way, like better service and superior quality and special appeal (Kotler, 2009). Berkowitz et al (2002) defined product differentiation as a firm using different marketing mix activities such as product features and advertising to help the consumer perceive the product as being different and better than competing products. Product differentiation strategy can be a tool of competitive advantage which is adopted by organizations in order to provide products that satisfies individual customer's needs. In satisfying individual customer's needs, quality has become a major differentiating factor among products (Shammot, 2011). Saloner, Shepard and Podolny (2001) say that "most forms of competitive advantage mean either that a firm can produce some service or product that its customers value than those produced by competitors or that it can produce its service or product at a lower cost than its competitors."

The issues of product quality have been studied by many scholars (Ertekin and Aydin, 2010 and Sumutka and Neve, 2011). 'Quality' was 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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**Research Methodology**

The study adopted a descriptive survey research design with a target population of 30 employees of the Barclays bank Kisii branch. The researcher collected data using questionnaires, interviews, observation and document analysis. The study established that product quality, design and development, product innovation, brand differentiation positively and significantly influence clients’ sustainability.

**Findings**

**Table 1: Influence of product quality differentiation strategies**

Statements	Frequency	Percent	Mean	Std. deviation
Unique product features maintained by the Barclays Bank enhances clients sustenance	23	76	4.032	.978
Reliability of products maintained by the Barclays Bank improves clients sustenance	26	86	4.311	1.067
There are strict product quality control procedures through TQM, hence enhanced clients’ sustenance	25	83	4.432	.078
Unique serviceability maintained by the Barclays Bank enhances clients sustenance	24	79	4.231	1.209

**Key: 1=strongly Disagree, 2= Disagree, 3= Undecided, 4=Agree and 5= Strongly Agree**

The results in table 1 above show that 23 (76%) of the respondents agree (mean 4.032) that unique product features maintained by the Barclays Bank enhances clients sustenance, 26 (86%) agree (mean 4.311) that reliability of products maintained by the Barclays Bank improves clients sustenance, 25(83%) of the respondents agree (mean 4.432) that there are strict product quality control procedures through TQM, hence enhanced clients' sustenance and 24 (79%) agree (mean 4.231) that unique serviceability maintained by the Barclays Bank enhances clients sustenance.

**Table 2: Correlation between product quality variables and clients' sustainability**

<b>Product quality</b>	<b>Clients' sustainability</b>	
Features	Pearson Correlation	.342**
	Sig. (2-tailed)	.000
	N	30
Reliability	Pearson Correlation	.504**
	Sig. (2-tailed)	.000
	N	30
Procedures	Pearson Correlation	.511**
	Sig. (2-tailed)	.001
	N	30
Serviceability	Pearson Correlation	.511**
	Sig. (2-tailed)	.000
	N	30

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The analysis results in table 2 above show that there was a positive and significant relationship between clients' sustainability and product quality variable; Features, Reliability, Procedures and Serviceability at (r=.342\*\*, P<.01), (r=.504\*\*, P<.01), (r=.511\*\*, P<.01), and (r=.511\*\*, P<.01)respectively.

The product quality variables were them merged using SPSS transformation technique to form product quality factor which was then correlated with client sustainability as show in table 3 below;

**Table 3: Correlation between Clients' sustainability and Product quality**

<b>Correlations</b>		<b>Clients' sustainability</b>
<b>Product quality</b>	Pearson Correlation	.465***
	Sig. (2-tailed)	.000
	N	30

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The analysis results in table 4.8 above show that product quality positively and significantly influence clients' sustainability at r=465\*\*, p<.01 significant level. This implies that product quality contributed 21.6% variability to clients' sustainability when other factors are held constant.

## Conclusions

In conclusion, the study established that product quality, design and development, product innovation, brand differentiation positively and significantly influence clients' sustainability.

## Recommendations

- In order to enhance clients' sustainability, the banks should put in place product quality differentiation strategies in terms of Features, Reliability, Procedures and Serviceability.
- In order to enhance clients' sustainability, the banks should put in place design and development differentiation strategies in terms of Product look, Functionality, Aesthetic and Feels.
- In order to enhance clients' sustainability, the banks should put in place product innovations differentiation strategies in terms of technology, research, and New products development.

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