

## THE EFFECT OF MARKET POSITIONING ON ORGANIZATIONAL PERFORMANCE IN THE AIRLINES INDUSTRY IN KENYA; CASE OF KENYA AIRWAYS

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### Abstract

Market positioning has long been recognized as a vital tool to confront competitive pressures and improve organizational performance. Firms which position themselves within a particular market place relative to competitors, earn higher rates of return. Competition and profitability pressures mean that firms must be responsive to the market conditions. The study sought to determine the effects of market positioning strategies on organizational performance in the airlines industry in Kenya using Kenya Airways (KQ) as a case. The study covered 215 respondents drawn from a population of 1230 (staff and customers). Questionnaire was used to collect data. Content analysis, descriptive and Pearson's Product Moment of Correlation were used to analyze data. The results revealed that variations in organizational performance are explained by pricing strategies with a confidence level of 95%. The results indicated a P-value of less than 0.005 against all the study variables. Pricing strategies had a significant effect on cost strategies, perceived service quality, differentiated benefits, innovation and organizational performance. The study revealed a positive correlation between pricing strategies and perceived service quality with a correlation coefficient of 0.574; an average and positive correlation between pricing strategies and innovation with a correlation coefficient of 0.464. There also existed a positive correlation between pricing strategies and differentiated benefits with a correlation coefficient of 0.650. Moreover, the correlation efficient between pricing strategies and performance was also positive, meaning that as a firm charges fair prices, compared to its competitors, performance is improved as supported by Kimes and Wirtz (2002). Pricing strategies had a coefficient value of 0.170 against organizational performance. The study concluded that positioning is firmly placed within the general segmentation-targeting-positioning framework and plays a pivotal role in marketing strategy. Market positioning strategies have yielded to improved performance. The study recommends that KQ and indeed other airlines should continue positioning themselves favorably within the global market to enable them earn high profits. They should plan the product mix for a combination of elements such as physical product, product services, brand and package desired by the target consumers. Further, they should continue their focus on high quality service to customers and markets in order to build customer loyalty.

**Key words:** Market positioning, marketing strategy, organizational performance, pricing strategies, segmentation-targeting-positioning, product mix

## **1.0 Introduction**

Marketing as an organizational philosophy requires that an understanding of customer needs should precede and inform the development and marketing of products and services as opined by (Kotler, 1997). Marketing as a strategy defines how an organization is to compete and survive in the marketplace. Organizational performance is what business executives and owners are usually frustrated about, because even though employees are hard-working, and are busy doing their tasks, their companies are unable to achieve the planned results (Smith, 1995). Competitive advantage is achieved by a combination of unique resources and a high level of competence (Das and Teng 2000), and marketing executives must plan the product mix that will result in a combination of elements that make up the product (physical product, product services, brand and package desired by the target consumers).

A market position reflects how consumers perceive the product's or organization's performance on specific attributes relative to that of the competitors (Kotler, 1994). Positioning is a competitive marketing tool that goes beyond image-making. It is an attempt to distinguish an organization from its competitors, in order to be the most preferred firm for a certain market segment. It is establishing and maintaining a distinctive place and image in the market for product offerings so that the target market understands and appreciates what the organization stands for in relation to its competitors (Ries and Trout, 1986). A firm that positions itself favorably within a particular marketplace, relative to competitors, can earn high profits irrespective of average profitability within the market. Competition and profitability pressures mean that firms must be increasingly responsive to market considerations in terms of their positions.

Successful consumer marketing begins with consumers who need the product and have the resources to buy it. However, these consumers do not buy just a product; they buy a total bundle of values (market offering). The market offering is composed of a mix of elements such as a product, product services, transaction services, brand, package, price, credit terms, price discounts, advertising, personal sales assistance, store or business location availability, inventory assortment and transportation services. Mixing and matching these various elements of the market offering into an appropriate integrated and unified whole becomes the primary focus in developing a successful competitive position in the marketplace today.

### **1.1 Statement of the Problem**

Positioning is a powerful tool that allows a firm to create an image. In recent years the airline industry has witnessed increased emphasis on the cultivation of a culture which fosters the effective implementation of marketing programmes. This growing attention stems from the belief that sound marketing practices provide an important source of competitive advantage in the service sector which is characterized by high levels of interaction between firms and their customers. A strong marketing culture leads to customer retention, which in turn, yields higher profitability (Ries and Trout, 2000).

Kenya Airways market dominance and profitability has been declining over the recent years as indicated in their financial results. In view of profitability achieved over a period of 2006-2007 and 2007-2008, the firm's net profit was down 5.6%, while the revenue for the same period was up 19.6%. For the period between 2007 – 2008 and 2008 – 2009, the net profit was down again by 182.9% while the revenue for the same period was down by 35.4%. For an airline to become profitable it must put in place strategies that position itself in market dominance and improve the firm's overall performance. Marketing positioning has been recognized as a vital tool to confront the competitive pressure in the airline market environment and also as a tool of improving the performance of these firms. Though the marketing positioning concept and its effect on firm performance has received considerable attention, there is limited empirical literature on its practice and effects on firm performance in the Kenyan context. The study sought to determine the effects of marketing positioning strategies on the performance of airline industry with specific reference to Kenya airways.

## **1.2 The Purpose**

The purpose of the study was to determine the effects of marketing positioning strategies on the organization performance of Kenya Airways Limited. Specifically the study sought to establish the effect of pricing strategies on the performance Kenya Airways Limited, perceived service quality on the performance of Kenya Airways, innovation strategies on the performance of Kenya Airways, differentiated benefits on the performance the Kenya Airways, cost strategies on the on the performance of the Kenya Airways.

## **2.0 Methodology**

The study adopted an exploratory design covering a stratified sample of 215 respondents drawn from a population of 1230 (staff and customers). A semi-structured survey questionnaire was used to collect data which was analyzed using descriptive and inferential statistics. In particular, Pearson Product Moment Correlation was used to establish the relationship between the variables under study. However, before detailed analysis, data was categorized into themes guided by the objectives of the study. Content analysis was used to analyze the respondents' views on the market positioning strategies adopted by Kenya Airways. The organized data was interpreted on account of concurrence, mean and standard deviation using SPSS computer software.

## **3.0 Results and Analysis**

The study sought to analyze the market domain of Kenya Airways as understood by the respondents from a market positioning view in relation to organizational performance. A combined 89% of the respondents interjected that positioning is firmly placed within the general segmentation-targeting-positioning framework with the remaining percentage not sure of the positioning of the airline within the framework. Almost all the respondents felt that marketing positioning is the backbone of Kenya Airways' business plan, with 98% feeling that it was used to a very great extent and 2% to a great extent. Although the underlying concepts of market positioning are similar in consumer and business marketing and that differential approaches are needed during implementation, Kenya Airways provides a combination of features perceived to be desirable by the target market.

### **3.1 Pricing Strategies**

The value of any pricing strategy is questionable if it is not congruent with the overall strategy of the firm. Pricing strategies, which do not reflect organizational goals, can detrimentally affect performance outcomes. The consequences of pricing strategies have important managerial and public policy implications. Majority of the respondents were of the opinion (strongly agreed or agreed) that pricing has a strong effects on organizational performance.

With a P-value of less than 0.005 against all the study variables, the Pearson Correlation analysis indicated that pricing strategies had a significant effect on these study variables namely the cost strategies, perceived service quality, differentiated benefits, innovation and organizational performance. There existed a fairly strong and positive correlation between Pricing Strategies and Perceived Service Quality with a correlation coefficient of 0.574; an average and positive correlation between Pricing Strategies and Innovation with a correlation coefficient of 0.464. There also existed a strong and positive correlation between Pricing Strategies and Differentiated Benefits with a correlation coefficient of 0.650. Moreover, the correlation efficient between pricing strategies and performance of Kenya Airways was also positive meaning that as a firm charges fair prices as compared to its competitors, organizational performance is enhanced (Kimes and Wirtz, 2002).

Pricing strategies had a coefficient value of 0.170 against organizational performance when the marketing positioning elements (independent variables) were regressed against the dependent variable (organizational performance). The results revealed that 17.4% of the variations in organizational performance are explained by pricing strategies with a confidence level of 95%. It was found that the effect of pricing strategies, though significant, have low explanatory power on corporate performance. This means that hypothesis one did not accurately predict the outcome of the study, leading to rejecting the null hypothesis.

### **3.2 Perceived Service Quality**

Service quality is the discrepancy between what customers expect and what customers get, and it is evaluated through five dimensions, tangibles, reliability, responsiveness, assurance, and empathy. Accordingly, organizational competitiveness is possible to support service firms to provide high service quality to customers and markets in order to encourage a competitive advantage and receive a superior performance. The study thus sought to find out how the five dimensions are adopted to enhance organizational performance within the study scope. All the dimensions of service quality show a high adaptability level (90%), indicating the effort and commitment by Kenya Airways to offering its customers the best of service.

There existed a fairly strong and positive correlation between Perceived Service Quality and Pricing Strategies with a correlation coefficient of 0.574. There existed a less than average and positive correlation between Perceived Service Quality and Innovation with a correlation coefficient of 0.0.241 and an equally below average correlation between perceived service quality and Differentiated Benefits with a correlation coefficient of 0.289. There was, however, a low key negative correlation between perceived service quality and cost strategies with a coefficient of -0.139.

The correlation efficient between perceived service quality and organizational performance of Kenya Airways was also positive meaning that the more innovative a firm becomes, the more organizational performance was enhanced. The coefficient of determination between perceived service quality and organizational performance was 0.167 which was a strong positive of regression. The results indicated that 24.8% of the variations in organizational performance are explained by perceived service quality, with a confidence level of 95%. In view of this one, the effect of perceived service quality, though significant, has low explanatory power on organizational performance which implies that hypothesis two did not accurately predict the outcome of the study, leading to rejecting the null hypothesis.

Innovation is closely related to organizational performance, and according to Thompson (1996) innovation as the generation, acceptance, and implementation of new ideas, processes, products, or services. Thus, an innovative organization is taken to be a learning organization and at the same time a performing one. This study sought to establish the respondents' views on the relationships that exist between innovation, the learning organization, and organizational performance. According to the results, all the variables under the innovation concept had a high support, with the lowest being 75%. It was established that organizational performance is associated with the development of new knowledge, which is crucial for firm innovation capability and firm performance and that an innovative organization closely monitors the competitors' actions in the market and that an organization committed to learning is likely to have greater innovation capability than competitors.

### **3.3 Differentiated Benefits**

Differentiation is a marketing process that showcases the differences between products. It looks to make a product more attractive by contrasting its unique qualities with other competing products. Successful product differentiation creates a competitive advantage for the seller and thus enhances firm performance as customers view these products as unique or superior. Product differentiation can be achieved in many ways. It may be as simple as packaging the goods in a creative way, or as elaborate as incorporating new functional features. Sometimes differentiation does not involve changing the product at all, but creating a new advertising campaign or other sales promotions instead (Galbraith, 1997). The results in Table 6 showcase a scenario where most of the strategies have been adopted to either a moderate extent or to a little extent, meaning a lot of effort has to be put into place to ensure that these strategies are adapted in order to have more unique, distinguished products at Kenya Airways. However, the scatter was quite high peaking at 1.30 showing a high degree of indecisiveness among the respondents. This high scatter can also be explained by the big range of 4 between the minimum observation and the maximum for most of the responses as shown in Table 1.

*Table 1: Extent of Adoption of Differentiated Benefits Strategies by KQ*

| Strategy                                                      | Count | Min | Max | Mean | S.D. |
|---------------------------------------------------------------|-------|-----|-----|------|------|
| Packaging of goods in a creative way                          | 89    | 1   | 4   | 3.13 | 0.87 |
| Incorporating new functional features                         | 92    | 2   | 5   | 3.65 | 1.30 |
| Creating a new advertising campaign or other sales promotions | 92    | 1   | 5   | 4.97 | 1.12 |

Source: Research Data (2010).

The study established that product differentiation involves differentiating a product from competitors' products as well as one's own product offerings in order to enhance firm performance. Kenya Airways adopts the product differentiation strategy of packaging of goods in a creative way and incorporating new functional features in a bid to improve its performance. The study also established that for the company to achieve better performance, the marketing executives must plan the product mix that will result in a combination of elements such as physical product, product services, brand and package desired by the target consumers and that product differentiation at Kenya Airways is done in order to demonstrate the unique aspects of their product and create a sense of value which guarantees better performance.

### **3.4 Costing and Promotion**

Costing strategy involves the firm winning market share by appealing to cost-conscious or price-sensitive customers. This is achieved by having the lowest prices in the target market segment, or at least the lowest price to value ratio (price compared to what customers receive). To succeed at offering the lowest price while still achieving profitability and a high return on investment, the firm must be able to operate at a lower cost than its rivals. The study revealed that cost strategies are very important in enhancing the performance of Kenya Airways as they inform and educate the market, increase sales, maintain and improve market share, create and improve brand recognition and create a competitive advantage relative to competitor's products and market position.

The study revealed that promotional activities were very important in increasing sales as supported by all the respondents (Table 2). In improving and maintaining market share, promotional activities are equally very important as indicated by 98% of the respondents. However, in creating a competitive advantage, relative to competitor's products or market position, respondents had mixed reactions, with the majority (42%) rating promotional activities' role as very important, 10% as important, 34% as somehow important and 14% as not important.

*Table 2: Role of promotional activities in organizational performance*

| Role                                                                                 | Count | 1  |     | 2  |    | 3 |   | 4  |    | 5  |    |
|--------------------------------------------------------------------------------------|-------|----|-----|----|----|---|---|----|----|----|----|
|                                                                                      |       | C  | %   | C  | %  | C | % | C  | %  | C  | %  |
| Increase sales                                                                       | 92    | 92 | 100 | 0  | 0  | 0 | 0 | 0  | 0  | 0  | 0  |
| Maintain or improve market share                                                     | 91    | 89 | 98  | 2  | 0  | 0 | 0 | 0  | 0  | 0  | 0  |
| Create or improve brand recognition                                                  | 92    | 79 | 86  | 10 | 11 | 3 | 3 | 0  | 0  | 0  | 0  |
| Create a favorable climate for future sales                                          | 89    | 88 | 99  | 1  | 1  | 0 | 0 | 0  | 0  | 0  | 0  |
| Inform and educate the market                                                        | 92    | 89 | 97  | 3  | 3  | 0 | 0 | 0  | 0  | 0  | 0  |
| Create a competitive advantage, relative to competitor's products or market position | 91    | 38 | 42  | 9  | 10 | 0 | 0 | 31 | 34 | 13 | 14 |

Source: Research Data (2010).

The study sought to assess key performance indicators within the context of Kenya Airways. With the means ranging between 0.59 and 1.99, respondents were in agreement that the aspects presented played a big part in improving organizational performance. This finding is in consonance with Dunphy, Turner & Crawford (1996) who studied the strategy that helps to explain why certain organizations achieve superior organizational performance; while Michael Porter (1980) explains the success of an organization's competitive strategy dependence upon a set of strategic choices that positions the organization successfully within a particular industry or environmental niche.

### **3.5 Analysis of the effect of Market Positioning Variables on Organizational Performance**

This was done using regression analysis in respect of each research objective and hypothesis. Table 3 shows the results from the simple regression analysis carried out.

*Table 3: Regression analysis of market positioning variables*

| Model          | R <sup>2</sup> | DF | F      | P-Value |
|----------------|----------------|----|--------|---------|
| H <sub>1</sub> | 0.174          | 47 | 9.714  | 0.003   |
| H <sub>2</sub> | 0.248          | 47 | 15.204 | 0.000   |
| H <sub>3</sub> | 0.343          | 37 | 18.789 | 0.000   |
| H <sub>4</sub> | 0.118          | 48 | 6.303  | 0.016   |
| H <sub>5</sub> | 0.391          | 18 | 10.933 | 0.004   |

Source: Research Data (2010).

*H1: There is no significant relationship between pricing strategies and performance*

The results reveal that 17.4% of the variations in organizational performance are explained by pricing strategies, with a confidence level of 99%; nearly 82.6% is explained by other factors. It was found that the effect of pricing strategies, though significant, have low explanatory power on corporate performance. This means that hypothesis one did not accurately predict the outcome of the study, leading to rejecting the null hypothesis.

*H2: There is no correlation between perceived service quality and performance.*

The results indicated that 24.8% of the variations in organizational performance are explained by perceived service quality, with a confidence level of 95%, nearly 75.2% is explained by other factors. In view of this one, the effect of perceived service quality, though significant, has low explanatory power on organizational performance which implies that hypothesis two did not accurately predict the outcome of the study, leading to rejecting the null hypothesis.

*H3: There is no relationship between innovation with and performance of Kenya Airways.*

According to the analysis, there is indication that 34.3% of the variation in organizational performance is explained by innovation, with accuracy level of 95%, nearly 65.7% is explained by other factors. The effect of innovation, though significant, has low explanatory power on organizational performance which implies that hypothesis three did not accurately predict the outcome of the study, leading to rejecting the null hypothesis.

*H4: There is no correlation between differentiated benefits and performance*

The results indicate that 11.8% of the variation in organizational performance is explained by differentiated benefits, with an accuracy level of 95%, nearly 88.2 percent is explained by other factors. The effect of differentiated benefits, though significant, has low explanatory power on organizational performance. This suggests that the hypothesis did not accurately predict the outcomes of the study, leading to rejecting the null hypothesis.

*H5: There is no significant relationship will be found between cost strategies and performance of Kenya Airways*

According to the study, there is evidence that 39.1 percent of the variations in organizational performance are explained by cost strategies, with accuracy of 95%, nearly 60.9% are explained by other factors. It is apparent that the independent effect of cost though significant, has low explanatory power on organizational

performance, indicating that hypothesis five did not accurately predict the outcome of the study, leading to rejecting the null hypothesis.

These findings are similar to studies done in the past where emphasis was more on the effects of variables on organizational performance. Chandler (1962), for example, looked at strategy and structure. Boeker and Goodstein (1991) studied the relationship between environment and organizational performance. In all these studies, it was established that the variables have significant effect on organizational performance.

#### **4.0 Conclusions**

The study concludes that positioning is firmly placed within the general segmentation-targeting-positioning framework at Kenya Airways and positioning plays a pivotal role in marketing strategy, since it links market analysis, segment analysis and competitive analysis to internal corporate analysis. The measures of performance that affect marketing positioning strategies at the airline include employee turnover, increase in aircraft, increase in routes, increase in revenue/profitability.

Product differentiation at Kenya Airways involves differentiating it from competitors' products as well as one's own product offerings in order to enhance firm performance. Kenya Airways adopt the product differentiation strategy of packaging of goods in a creative way and incorporating new functional features in a bid to improve its performance. Product differentiation at Kenya Airways is done in order to demonstrate the unique aspects of their product and create a sense of value which guarantees better performance. The roles of cost strategies that are very important in enhancing the performance of Kenya Airways are such as informing and education of the market, increase in sales, maintaining or improving market share, creating or improving brand recognition and creation of a competitive advantage relative to competitor's products or market position. Kenya Airways use sponsorship, advertising, sales promotion and personal selling as a means of achieving better performance. The study also concludes that that pricing strategies affect performance outcome and that other than table-locating prices, other forms of pricing policy are not regarded as unfair.

The study also concludes that that Kenya Airways adopt various issues in an attempt to better service quality including responsiveness, empathy, reliability, assurance and tangibles. The study found that the people that were very important in improving performance as relates to service quality were such as related companies, regulator(s) and customers. Organizational competitiveness supports service firms to provide high service quality to customers. Performance is associated with the development of new knowledge, which is crucial for firm innovation capability and firm performance. The distribution channels employed at Kenya Airways include indirect channels, service reliability, direct distribution channels and service quality. Kenya Airways uses various criteria in attempting to segment the market such as Psychographics and Geographic. The marketing performance indicators used in the organization include new customers acquired and collection of bad debts within customer relationships, demographic analysis of individuals (potential customers) applying to become customers and the levels of approval, rejections and pending numbers. The study finally concludes that there is a strong relationship between pricing strategies, perceived service quality, innovation, differentiated benefits, cost strategies and performance of Kenya Airways.

#### **5.0 Recommendations**

This study therefore recommends that in order to succeed, Kenya Airways should position itself favorably within a particular marketplace, relative to competitors which will enable it earn high rates of return or profits, irrespective of average profitability within the market and for Kenya Airways. The study also recommends that for the company to achieve better performance, the marketing executives must plan the product mix that will result in a combination of elements such as physical product, product services, brand and package desired by the target consumers.

The study also recommends that for Kenya Airways to be competitive it should provide high service quality to customers and markets in order to encourage a competitive advantage and receive quality to customers and markets and also receive a superior performance. Kenya Airways should also devise ways of overcoming the challenges that affects it in service quality such as consumers' limitation and consumers' loss of focus. The organization should also be innovative and closely monitor the competitors' actions in the market and should also be committed to learning which will give it greater innovation capability than competitors.

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