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Muriithi, Robert Mwangi and Dr. Waithaka Paul, PhD

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Market Penetration Strategy and Performance of Agrochemical Companies in Nakuru County, Kenya

[1*]Muriithi, Robert Mwangi & [2]Dr. Waithaka Paul, PhD.

[1]Postgraduate Student, Department of Business Administration, Kenyatta University, Kenya.

[2]Lecturer, Department of Business Administration, Kenyatta University

***Corresponding author's email: muriithimr@gmail.com**

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Abstract

The performance of the agrochemical industry in Kenya is of paramount importance to the agricultural sector because agriculture is the mainstay of Kenya's economy. This study sought to investigate the effect of market penetration strategies on performance of agrochemical companies in Nakuru County, Kenya. The study employed a descriptive survey design. The target population was 20 agrochemical companies operating in Nakuru County. The study employed a census survey and purposive sampling was used to select 60 senior management. Self-administered questionnaires were used to collect data after being pretested for reliability and validity and found to meet the acceptable Cronbach's alpha value. Data analysis included both descriptive and inferential analyses. Simple regression analysis showed that market penetration strategy had a positive and statistically significant relationship with the performance of agrochemical companies. The findings of this study are significant to managers, scholars and government. To the managers, the findings reveal market penetration strategies influence the performance of their agrochemical companies. For the government the findings reveal the need to develop policies that will support the market penetration strategy adopted by agrochemical companies because they affect their performance. For scholars, the findings contribute to further understanding of the effect of market penetration strategy on firm performance. This study concludes that market penetration strategy is the most important predictor of performance of agrochemical companies. This study finally recommends that future studies could be carried out in other counties and different industries such as banking and manufacturing to compare the findings in this study.

Keywords: *Market Penetration, Firm Performance, Agrochemical Companies, Internal Growth Strategies*

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1.0 Introduction

The turbulent business environment has seen unprecedented competition for customers and resources. A firm's survival is therefore, determined by its organizational performance. This is because it is only through performance that organizations can grow, survive and grow (Gavrea, Illies & Stegerfan, 2011). Singh, Darwish and Potočnik (2016) maintain that organizational performance lies at the heart of a firm's performance; thus, it is an important construct in strategic management research, although progress in its conceptualization and measurement is hampered by a lack of consensus in its definition.

The growth of the agrochemical industry in Kenya is of paramount importance to the agricultural sector, because agriculture is the mainstay of Kenya's economy. The sector contributes 26 percent of the country's GDP and accounts for employment of 75 percent of the total population, majority of who are found in the rural areas (ERA, 2015). Lusenaka (2017) asserts that the sector contributes 60 percent of the total export earnings and about 45 percent of the government's revenue; thus, significantly influences the country's overall economic performance in any year. Consequently, any decline in productivity in the sector adversely affects the economy.

One of the factors contributing to low productivity in the sector is attack from pests and diseases; the United Nations Food and Agriculture Organization estimates that pests account for between 40-60 percent of the food loses in the country. To improve productivity, therefore, the importance of the agrochemical industry in the country cannot be overemphasized. The agrochemical industry in the country faces many challenges. According to Ndegwa (2003), one of these is a decline in the market, mainly due to the effect of global ripple effects as a result of acquisitions, mergers and spin-offs. Mutakaa (2007) posits that the agrochemical industry is highly competitive due to many firms operating in the industry. The multinational firms are dominant, commanding a bigger market share of thirty-six percent (36%). Coupled with this, is that some polices adversely influence the performance of the industry. Lusenaka (2017) argues that the introduction of 16 percent VAT on imported ingredients of pest control products for local processing or formulation has threatened the survival of the 17 companies that manufacture pesticides. Consequently, manufacturers are scaling down their operations and investments in local formulation of pesticides by up to 88%. This situation demands that agrochemical firms need to adjust their market penetration strategies to achieve organizational performance.

Market penetration is an effort to increase company sales without departing from an original product-market strategy (Ansoff, 1957). It is the first growth strategy generally pursued by an organization with intent to grow (Mutia, 2013). Through this strategy, a company expands into a market where its current products already exist with the aim of selling more to current customers. Penetration strategies are often employed by businesses that need to use up spare resources like unutilized company capacity (Mwiti, 2011). The four objectives of a market penetration strategy are maintaining or increasing the market share of current products; securing dominance of growth markets; restructuring a mature market by driving out competitors; or increasing usage of existing customers.

The agrochemical industry in Kenya is controlled by the Pest Control Products Board (PCPB), a government statutory organization that oversees all matters pertaining to pesticides in Kenya. Ndegwa (2003) states that according to the Agrochemicals Association of Kenya (AAK) the agrochemical industry is subdivided into three main categories. The first category is made up of full members who include manufacturers of agrochemicals and related products, formulators contracted by manufacturers for agrochemicals and related products and contracted representatives of manufactures of active ingredients used in the formulation of agrochemicals and related products. The second category of associate members includes persons or corporation involved in the distribution and or usage of pesticides and related products originating from suppliers described under full members. The third category is the accredited dealers who include channel dealers registered with Pest Control Products Board.

Nakuru is the fourth leading urban centre in Kenya, located 160 km northwest of Nairobi. The population currently stands at 1,603, 325 people (KNBS 2019). Its economy depends highly on the agricultural hinterland, and the major economic sectors are commerce, industry, tourism, agriculture and tertiary services (Mwangi, 2001). Although it is the leading county in Flowers and vegetable production, the agricultural productivity is challenged by soil fertility, sub-division of land into unviable units and poor agricultural extension (Kisero, 2014). Several agrochemical firms have a presence in Nakuru, including both multinational companies and local companies.

1.2 Statement of the Problem

The performance of the agrochemical industry is threatened by intense competition due to the introduction of the 16 percent VAT on imported agrochemical ingredients Lusenaka (2017) and the entry of cheap imports from mainly China and India in the agrochemical industry (Gacuiri, 2018). This has contributed to declining sales and reduced performance of the companies in the industry resulting in the collapse of some of them such as Farmchem Limited. For the companies to remain profitable there has been need to adopt internal growth strategies aimed at increasing their competitive advantage. Several studies have examined strategies adopted in the agrochemical industry based on various variables.

In a recent study, King'ori and Waithaka (2018) examined the effect of pricing strategies on performance of Agrochemical firms in Industrial Area, Nairobi County. The variables in the study were differentiation, cost leadership, pricing strategy and market focus strategy. The study revealed that the companies relied on quality and superior products to differentiate themselves. While the study focused on the effect of pricing strategies on performance of agrochemical companies in Nairobi County, the current study will examine the effect of internal growth strategies on agrochemical firms in Nakuru County.

Mwangi (2016) conducted a study on the effect of diversification strategy on the performance of commercial banks in Kenya. The study variables were product diversification, marketing diversification and internal growth diversification. The findings revealed that majority (95%) indicated that diversification enhanced bank performance. The context of this study was in the banking industry; the current study will be in the agrochemical industry.

In another study, Mutukaa (2007) surveyed the competitive strategies used by agrochemical firms in Kenya. The study variables were cost leadership, differentiation, focus and combination strategy. The majority of the respondents (96.7%) indicated that differentiation strategy was adopted by 3.3% of the firms. The study's focus was on the multinational firms, which at the time were only two: Bayer Crop Science and Syngenta East Africa. The current study will examine internal growth strategies adopted by agrochemical companies in Nakuru County.

There is sufficient evidence that limited studies have been conducted focusing on companies in the agrochemical industry focusing on internal growth strategies as the independent variable, and performance of agrochemical firms as the dependent variable. Methodological gaps have also been identified in that some studies have been case studies; this limits the generalization of the findings. Therefore, this study will examine the internal growth strategies and performance of agrochemical firms in Nakuru County.

1.3 Objective of the Study

The study investigated the effect of market penetration strategy on the performance of agrochemical firms in Nakuru County, Kenya.

1.4 Research Hypothesis

Market penetration strategy has no significant effect on the performance of the agrochemical firms in Nakuru County, Kenya.

2.0 Literature Review

2.1 Theoretical Review

The Ansoff Matrix Model guided the paper. The Ansoff matrix model outlines four growth strategies that an organization may adopt based on two variables: product and market. These are market penetration, market development, product development, and diversification. According to Heiens and Pleshko (2010) market penetration as suggested by Ansoff (1987) is the safest growth option whereby a firm increases sales from current customers and pursues new customers in their existing market. Market development, on the other hand, aims at gaining new markets that will result in an increased market share that leads to increased sales. Ansoff (1987) posits that market development is taking current products and finding new markets by opening up previously excluded market segments, using new marketing and distribution channels and entering new geographical markets. It is generally considered a risky strategy since the organization may venture into unknown geographical markets. The organization may also introduce new product dimensions to its existing products, develop new distribution channels or offer different pricing to attract different customers (Mutia, 2013).

Product development is the process of developing new products or modifying existing products, and offering those products to current or new markets (Mosiria, 2012). Njomo and Oloko (2016) posit that some of the factors that may drive a firm to develop new products are changing consumer preferences, technological advancement, shifts in manufacturing costs and competition

from existing brands. Any agrochemical company keen on its future must make the development of innovative products and systems a priority (Ndegwa, 2003).

The diversification strategy is considered the most risky because the organization moves into unfamiliar markets with new products (Heiens & Pleshko, 2010). This is because the firm has little or no experience with both the market and products in these unchartered frontiers. However, if well implemented, it could be the most rewarding. There are four types of diversification strategies: vertical, horizontal, concentric and conglomerate. Vertical diversification works best where the customers are loyal to the firm's products while the new products should be of high quality, well-priced and promoted (Muchiri, 2012). Concentric diversification strategy involves increasing the product offerings by introducing new products that take advantage of the existing technology and marketing system. In conglomerate diversification a company enters into new products and new markets that have no relationships with neither current nor previous business lines. Mwangi (2018) argues that in this strategy, there is no strategic fit or relationships between current or previous lines of business. The reason for adopting this strategy is to improve the organization's flexibility and profitability so as to improve its capital markets as the business grows (Mwaria, 2017).

This model underpins this study because it forms the foundation of the internal growth strategies that were examined in the study. These are market penetration strategy, market development strategy, product development strategy and diversification strategy. Agrochemical companies' keen on improving their organizational performance may select some of these internal growth strategies as they strive to beat their competitors; thus gaining a larger market share and increased sales.

2.2 Market Penetration strategy and Performance of Agro-chemical Companies

Maina (2018) in a study on competitive strategies and performance of deposit taking SACCOs in Murang'a County established that focus cost leadership greatly influenced the performance of SACCOS. The study shows that the SACCO products are designed to attract and meet the specific needs of diverse social classes. Furthermore, discriminate pricing of products is adopted to meet the demands of customers. This study examined the effect of competitive strategies on performance of SACCOs in Murang'a County; the current study proposes to investigate the effect of internal growth strategies on the performance of agrochemical companies in Nakuru County.

In another study, Mwangi (2018) investigated the effect of growth strategies on the performance of selected milk processing companies in Kenya. The study established that there is a positive and significant correlation between market penetration strategy and performance of these companies. The strategies that these companies favoured include offering better quality products/services; promotion of their brands; offering lower prices and increasing distribution channels. This study was limited to milk processing companies and not the entire agriculture industry. The variables used to investigate growth strategies were market penetration, market expansion, mergers and acquisition; which combined both internal and external growth

strategies. However, the current study will include only the internal growth strategies employed in the agrochemical industry.

Numa (2013) conducted a study on the relationship between strategies and business growth in the banking industry in Kenya, a case of Co-operative Bank of Kenya. The study found out that the Co-operative Bank used market penetration strategies for business growth. The Bank used pricing strategies such as using low margins on high volumes of sales to a great extent to increase revenue collection base. Branch expansion strategies were also significantly adopted to enlarge the market share. This study was a case study, which limits the generalization of the findings; the current study will adopt a descriptive survey design and expand its context to 20 agrochemical companies operating in Nakuru County.

Mutua (2016) conducted a study on growth strategies and performance of insurance firms in Kenya. The study found out that market penetration was the most adopted growth strategy in the insurance industry. Majority of the respondents (68.8%) indicated that their firms employed this strategy to a great extent. The market penetration strategies adopted by the firms included lowering prices of products, embracing technologies such as online access of services and securing dominance of growth markets. This study will adopt different variables in examining market penetration strategies; this will include customer satisfaction and innovation.

3.0 Research Methodology

The study used a descriptive survey design. The target population was 20 agrochemical companies operating in Nakuru County. In each agrochemical company, the general managers, finance managers, sales managers and technical managers were involved in the study. This is because being in the management they were able to give accurate and relevant information. Three senior managers (general managers, finance managers, sales managers and technical managers) from each of the 20 agrochemical companies in Nakuru were selected to participate in the study. This gave a total of 60 respondents. Questionnaires were used to collect primary data because they are economical to use, thus save time and money. Data collected was entered into SPSS Version 23.0 for analysis. Data analysis involve descriptive statistics (means and standard deviation) and inferential statistics (simple linear regression model). The simple linear regression model estimated was.

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \epsilon}$$

Y is performance of agrochemical companies in Nakuru County,

X_1 is market penetration strategy and ϵ is error term.

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4.0 Results and Discussions

A total number of 60 questionnaires were administered to the respondents. However, after data cleaning five questionnaires were found not to have been duly filled for the purpose of the study. This left 55 questionnaires to be analysed, giving a response rate of 91.7 percent. Mugenda and Mugenda (2003) posit that a response rate above 50 percent is adequate, 60 percent as good and above 70 percent as very good to make conclusions regarding an entire population. Therefore, the response rate of 91.7 percent was considered to be very good in this study.

Majority of agrochemical firms in Nakuru County (43.6 percent) had been in operation in Nakuru County for between 11-15 years, 40 percent had been in operation for more than 15 years while 16.4 percent had been in operation for between 6-10 years. This shows that a majority of the companies had been in operation for a long time to have adopted internal growth strategies to realize organisational performance. On the types of products offered by the companies, 63.6 percent of agrochemical companies deal in crop protection products, 25.5 percent deal in both crop protection and animal health products while 10.8 percent of the companies deal in animal health products.

Descriptive results

The study sought to find out the relationship between market development strategy and performance of agrochemical companies in Nakuru County. The findings are shown in Table 1.

Table 1: Market Development Strategy

	N	Mean	Std. Deviation
We have managed to retain existing customers	55	4.45	.662
We sell our existing products to new customers	55	4.27	.706
Our company has ventured into new geographical regions	55	4.22	.832
We have developed new market segments	55	4.22	.854
Our company has developed new distribution channels	55	4.22	.786
The company has clear market development strategies	55	4.33	.747
	55	**4.285**	**0.765**

The highest mean of 4.45 and a standard deviation of 0.662 was in the companies being able to retain their existing customers. This was followed by a mean of 4.27 and a standard deviation of 0.706 in selling products to existing customers. A high mean is an indication of convergence of agreement on the market development strategies adopted by agrochemical companies while a moderate standard deviation indicates that there is a moderate variation in the respondents' opinions. The average response was 4.285 out of 5 and a standard deviation of 0.765 indicating that market penetration strategies to a great extent influence the performance of agrochemical companies.

The findings in Table 1 reveal the market penetration strategies adopted by agrochemical companies have a great effect on their performance. These include offering premier customer service to foster loyalty and providing customers with product-use training so as to increase their effectiveness. The companies ensure that their products are consistently available to their

customers, engage in aggressive promotion of the company brand and have embraced innovative technology. The results also reveal that the companies charge initial high prices for new products and then lowers them over time to gain a competitive advantage. This strategy has a moderate effect on their performance. These findings support the earlier studies done by Mwaria (2017); Mbithi, Muturi and Rambo (2015) and Mosiria (2012). Mwaria (2017) investigated the relationship between growth strategy and performance of commercial banks in Kenya. The study revealed that banks in Kenya employed market expansion strategy to a great extent. Mbithi, Muturi and Rambo (2015) studied market development strategy and performance in sugar industry in Kenyaand found that market development has a significant predictive influence on performance. Mosiria (2012) studied the effect of internal growth strategies on performance of selected banks in Nairobi. The author established that market development strategy is highly adopted by banks in Kenya enabling them to tap into unexploited markets.

Simple linear regression model

Simple linear regression model was estimated to determine how market penetration strategy affects the performance of agrochemical firms in Nakuru County, Kenya. The results are presented in Table 2.

Table 2: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
Model	**B**	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	6.220	1.737		3.581	.001
Market Penetration	1.153	.080	.892	14.402	.000

From the results in Table 2, it is shown that market penetration strategy ($p=0.000>0.05$, $\beta=1.153$) has a significant effect on performance of agrochemical companies in Nakuru County, Kenya. This findings support earlier studies by Machiuka (2010); Njomo and Oloko (2016), Mwiti (2011) and Mutua (2016) that market penetration was the most important predictor in firm performance.

From the results the established regression equation for this study was:

$Y=6.22+1.153X_1$

Where: Y= Performance of Agrochemical Companies

X_1 = Market penetration strategy

The findings reveal that the performance of agrochemical companies would be at a constant factor of 6.22 if the effect of market penetration strategy would be zero. An increase in the market penetration strategy by one unit would trigger an increase in the performance of agrochemical companies by a factor of 1.153. The null hypothesis states that there is no statistical significant relationship between market penetration strategy and performance of

agrochemical companies. The decision criteria is to reject the null hypothesis if the p-value is equal to or less than 0.05. The results lead to rejection of the null hypothesis.

The respondents were asked to state other strategies that their companies have been using to penetrate into the market in the past 5 years. A majority of the respondents indicated that their companies used social media and digital marketing to penetrate into new markets. Other strategies used include organising field days with help of agricultural officers and farmers' group; motivation of sales personnel; and offering credit facilities for clients. A market penetration strategy involves increased sale of a firm's current products to its current customers; its aim to quickly capture a large market share thus increasing both sales and revenue. The results agree with Mwangi (2018) who investigated the effect of growth strategies on the performance of selected milk processing companies in Kenya and established that there is a positive and significant correlation between market penetration strategy and performance of these companies.

5.0 Conclusion

The findings of the study reveal that market penetration strategies influence the performance of agrochemical companies. For scholars, the findings contribute to further understanding of the effect of market penetration strategy on firm performance. This study concludes that market penetration strategy is an important predictor of performance of agrochemical companies. This study concludes that concerning market penetration, the offering of premier customer service not only fosters customer loyalty, but also enables the agrochemical companies to capture more market through positive recommendations from satisfied customers.

6.0 Recommendations

Agrochemical companies should adopt market penetration because it positively affects their performance. It is also recommended that the government needs to develop policies that will support the market penetration strategy adopted by agrochemical companies because they affect their performance and hence the agriculture sector. Agrochemical companies need to deploy more resources and train their employees on how to offer premier customer service experiences in order to penetrate more markets. They also should provide customers with training about effective use of the available products because this increases customer loyalty hence retention. This study investigated the effect of market penetration strategy on performance of agrochemical firms in Nakuru County. It is suggested that in future studies could be carried out in other counties and different industries such as banking and manufacturing to compare the findings in this study.

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