Effect of Strategic Product Development Practices on Competitiveness of Kenyan Tea in the Global Market

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Abstract

Kenyan black CTC tea is applauded globally as a high quality product available all year round and sold as a blend and not as an original tea. The core objective of the study was to examine the effect of strategic product development practices on competitiveness of Kenyan Tea in the global market. The study used cross-sectional survey design. The target population comprised of all 189 members of the East Africa Tea Trade Association (EATTA) who participate in the tea auction at Mombasa. Stratified sampling technique was used to select the study sample. Purposive sampling technique was used to select the managers who represented both the small-scale and large-scale producers. The sample was obtained using Slovin’s formula (1960); n=N(1+N(e)²). Structured and unstructured questionnaire was used to collect primary data. Pilot study tested for the validity and reliability. Cronbach’s Coefficient Alpha (α) was used to determine internal consistency. Collected data was analysed using SPSS to generate descriptive and inferential statistics. Pearson correlation coefficient (r) was derived while coefficient of determination (R²) was used to measure the amount of variation of the variables. The study findings indicated weak positive relationship of 31.0% between Strategic Product Development practices and Competitiveness. The study revealed that 1% change in Strategic product development practices decreased competitiveness of Kenyan in the global market by 0.089 units. Hence the conclusion that competitiveness of Kenyan Tea in the global market was influenced by other factors other than strategic product development Practices. The study recommended that other than strategic product development practices, the Kenyan Tea industry players should diverge from a long linear supply chain to a value network in order to make Tea a ‘hero’ crop and enable creation of a more sustainable industry and counter the escalating global competition.

Keywords: Strategic product development; Competitiveness; Strategic management practices

Introduction

Product development is a strategy adopted by a company to create new products that target its existing markets to achieve business growth and expansion. This practice strategically involves extending the product range through value addition, product differentiation, standardization and diversification to the existing products. Jaffe [1] noted that Strategic product development is based on how much the producer has to adjust the product on the standardization-adaptation continuum to differing market conditions.

Statement of the problem

Tea in its traditional form as a brewed beverage need to undergo change to suit the changes in consumer preferences and lifestyles and cope with increasing competition from other beverages in the global market [2]. Kenyan tea remains largely unknown in the global market for the reason that it is exported in bulk and is popularly used to blend other teas and then packed using different brands. Consequently, the Kenyan tea loses traceability and visibility in the shelves in the global market. Kenyan tees which are of high quality has not been standardized thus creating room for further manipulation by the buyers whereby the tea is normally used for blending with the cheap teas of low quality to meet the customers preferences. The blended tea fails to indicate the point of origin of the teas making the Kenyan teas loose competitiveness in the global market. A study by Omari [3] concluded that Kenya’s tea has very low product diversification and value addition compared to competitors contributing to poor performance globally [4]. Tea directorate noted that Kenya exports over 99% of her tea as black CTC of which 88% is exported in bulk form while the rest as value added tea an indication that there is limited value addition and product range. This scenario amplified the need to carry out this study which concentrated on the effect of strategic product development practices on competitiveness of Kenyan Tea in the global market [5-7].

Purpose of the paper

The purpose of this paper was to evaluate the effect of strategic product development practices on competitiveness of Kenyan tea in the global market.

Literature Review

The study was guided by new trade theory and the product lifecycle theory. New trade theory was developed by Krugman in the late 1970s and early 1980s. This theory recognized that countries producing similar goods and services continue to engage in trade with one another. The theory advised that globalization, costs of economies of scale and specialization as factors that contribute to growth and expansion of businesses for developing nations. According to this theory, early entrants in a given industry have an inherent advantage in that industry [8]. They have more time to attain economies of scale making it difficult for new firms to compete. Thus, emerging industries in developing nations have a hard time ever becoming established in the existing global market, as the developed world has already

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established economies of scale and often dominated the market [9]. This theory supports the study objective and its relevance was that, Kenya specializes on production of high quality black CTC which is exported to few key traditional markets making the country the leading world exporter of black CTC tea. On the other hand, the country trades the tea with China, Sri-Lanka and India. The aforementioned countries make some of the consumers of the Kenyan tea and yet they produce similar teas thus acting as competitors of the Kenyan Tea trade in the global market. Similarly, the traditional markets of Kenyan tea are well established in the global market, making it very difficult for new traders to enter the global markets. As a result, the competitiveness of the Kenyan tea continues to dwindle given that no new demands are created in the traditional markets as the market is already saturated. The existing customers changing preferences and tastes were not accommodated given that Kenyan Tea was exported as a commodity with no value addition and secondly the tea product lack diversification and differentiation which are key aspects of strategic product development practices [10-12]. The exported Kenyan tea product has been the same all through, giving room for customers to switch to competitors products.

Product Life Cycle Theory of International trade was developed by the economist Raymond Vernon in 1966. The theory postulates that products enter the market and gradually disappear due the life cycle of the product. The theory cited the four stages in a product life cycle as introduction, growth, maturity and decline. The theory advised that every product must go through each of the stages and the lifespan of each stage depends on demand, production cost and revenues generated from the product consumption [13]. According to the theory, low production costs and a high demand will ensure a longer product life.

This theory supports the current study in that, the processed Kenyan tea constitute both primary and secondary grades. Each grade command a different market share and price as well. The demand for each grade is also different. The product attributes are static day in day out making it difficult to match the consumer changing needs. Omari [3] found out that, the product life cycle theory asserts that marketing strategies must evolve along with a product from inception through obsolescence. At introduction it involves tailoring marketing mix to spark interest and educate potential customers. At growth phase, efforts shifts to secure a wider audience by building brand loyalty, a stable supply chain and additional distribution channels as defences against competition enter the market. Maturity stage witnesses weaker players driven out and there is little differentiation among competitors. This leads to market saturation leading to eventual decline of the product’s market share. Kenyan tea is stocked for long in the warehouses’ due to decline in demand. This leads to the said tea being sold below the valuation price at the auction [14-17].

Grant [18] draws on marketing theory and high-tech experience to describe the elements of the product life cycle for technology innovations. Moore examines how communities respond to discontinuous innovations or any new products or services that require the end user in the marketplace to dramatically change their past behaviour. Moore claimed that companies must position their products differently through the cycle to reach their full sales potential and become an industry standard. Theuri [19] in her study on Strategic Management determinants of Value Addition of Industrial Fish Processors in the Sea Food Processing Sub-chain in Kenya confirmed that Value addition on agricultural products determine the competitiveness of Kenya’s produce on world markets.

Methodology

The research design adopted by this study was cross-sectional survey. This design guided qualitative and quantitative data collection from the respondents. The survey design was appropriate because tea industry is a multi-stakeholder industry [20-23]. This study sought to analyse the influence of strategic product development practices on competitiveness of Kenyan Tea in the global market. The target population comprised of all one hundred and eighty nine (189) members of the East Africa Tea Trade Association (EATTA) who participate in the tea auction at Mombasa. To obtain the desired sample size for the study with the organizational population of 189, Slovin’s formula was applied as:

\[ n = \frac{N}{1 + Ne^2}, \]

Where:

\[ n = \text{Sample Size} \]

\[ N = \text{Total Population} \]

\[ e = \text{Error of Tolerance with a confidence level of 95% (giving a margin error of 0.05)} \]

\[ n = \frac{189}{1 + 189 \times 0.05} = 128.35 \text{ (rounded to 128).} \]

Stratified sampling technique was applied to select the study sample of 68% of buyers, brokers, warehouse, packers and associate members while purposive sampling technique was used to select KTDA managers who represented small-scale producers and large-scale producers [24]. It is advised a10% sample of the target population need to be considered an adequate sample for a given study.

This study explored on the existing conditions or relationships, current processes and the resultant effects in the specific area of study. Inferential conclusions were made from the secondary data from relevant reports. Data acquired was presented and analyzed using SPSS version 22.0. The findings of the study were presented in form of frequency tables [25-27]. The study results were further discussed and interpreted.

Results and Discussion

The objective of the study was to examine the effect of strategic product development practices on competitiveness of Kenyan Tea in the global market. The study focused on product value addition, product differentiation, diversification, product standardization and certification, lack of patenting and government tax policies as the key strategic product development practices that would impact on competitiveness of Kenyan tea in the global market. According to the respondents as presented in Table 1, 89.3% of the respondents agreed that low value addition of Kenyan tea affect its competitiveness in the global market. This represents the majority of the respondents. Due to the low value addition according to the respondents, Kenyan tea faces competition from other beverages, consumption rate being too low, and the consumers’ preference thus shifting to value added teas from other countries. Consequently, 10.7% of the respondents indicated that with value addition on Kenyan Tea, the results would be

<table>
<thead>
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<th>Effect of low value addition</th>
<th>Frequency</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Yes</td>
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<td>89.3</td>
</tr>
<tr>
<td>No</td>
<td>36</td>
<td>10.7</td>
</tr>
<tr>
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<td>336</td>
<td>100</td>
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</tbody>
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Table 1: Value addition of Kenyan tea.
increased market base, high prices, high market penetration, improved consumption rate and preference by the consumers and more importantly break the cultural stigma of tea consumption.

Mbui [28] claimed, compared to Kenya, where bulk tea exports are over 90% of the total, Sri Lanka’s bulk exports are lower at about 52%. This results to lower unit earnings from tea exports by Kenya and decline of the Kenyan Tea competitiveness in the global market.

Table 2 represents the respondents’ responses rating. The respondents were rated with a Likert scale of 1-5 (where 1=Strongly disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree) as presented in Table 2. The Mean in Table 2 represents the average of the Likert scale responses about the influence of Strategic Product Development on competitiveness of Kenyan Tea in the global market. The mean values measures the rating of the respondents; where a mean value between 0.5-1.5 represent strongly disagree,1.6-2.5 disagree,2.6-3.5 Neutral,3.6-4.5 Agree and 4.5-5.5 represent strongly Agree [29-32].

According to the study findings, Kenyan tea has low value addition thus affecting its competitiveness in the global market. This observation was supported by a mean of 4.37. Further the respondents suggested that the low value addition on Kenyan Tea possibly could be improved through flavouring, packaging, branding, product differentiation and diversification [33-38]. The respondents advised that product differentiation would be achieved through processing of specialty teas such as orthodox, purple and green teas while product diversification according to the respondents include extraction of tea by-products [39-42].

The study findings were confirmed in his study of tea value addition in Sri Lanka where he found out that sales in bulk form was a problem that Sri Lanka had to deal with and have now achieved about 45% tea value addition of her total production compared to Kenya only selling 5% of tea in value added form. Tea Directorate had a similar observation [43]. MAFAP affirmed that the low value added to tea exports limits farmers’ ability to obtain higher prices and respondents were in agreement that up scaling of value addition on Kenyan Tea would enhance its competitiveness in the global market [44]. A mean of 4.41 was recorded to that effect.

Product differentiation as reflected in Table 2 affected competitiveness of the Kenyan Tea in the global market. A mean of 4.34 showed that the respondents were in agreement to this claim. Product diversification promotes consumer preference thus enhancing competitiveness of Kenyan Tea in the global market. The respondents agreed with a mean of 4.30. Product standardization and certification enhances competitiveness of Kenyan Tea in the global market as evidenced by a mean of 4.36 from the respondents [45-48]. In 2012, more tea was certified under the Rainforest Alliance standard than any other voluntary sustainability standard, with 355,297 metric tons of tea certified, representing 7.6 per cent of world tea production and 18 per cent of global exports (Rainforest Alliance, personal communication desk) [49-53]. Further, FAO, in their market report indicated that in 2012, 12% of global tea production, was considered compliant with a global sustainability standard and Fair-trade International and UTZ Certified have also experienced double-digit growth an indication that Kenyan Tea is meeting international certification standards hence boosting its competitiveness in the global market.

According to the respondents, lack of patenting of the Kenyan Tea promotes blending which reduces its competitiveness in the global market. This was evidenced by an agreement of a mean of 3.96. Government tax policies discourage consumption of Kenyan Tea thus reducing competitiveness in the global market. The respondents were in agreement to this representing a mean of 4.38. The respondents argued that competitiveness of Kenyan tea in the global market was affected by blending of Kenyan tea with other tea of low quality.8.9% of the respondents reflected a different judgment. Kenya tea exported in bulk to various markets is mostly blended and packed in packages of less than 3 kg and either sold within importing countries or re-exported for consumption in other countries [47].

The study sought to determine the relationship between strategic product development practices and competitiveness of Kenyan tea in the global market. The results were as indicated in Tables 3 and 4.

The relationship means that 31% of the Competitiveness can be explained by Strategic Product development practices. The relationship was not significant at 5% level of significance (p=0. 440 >0.05).

According to the study results, competitiveness of Kenyan Tea in the global market was affected by other factors other than strategic product development practices. The study found out that Kenya tea is exported in bulk as a commodity with minimal value addition. This to a great extent contributes to the scenario above where by strategic product development practices leads to a decrease in competitiveness of Kenyan tea in the global market. This further means that modification of the product either through value addition; repackaging, blending or flavouring would not have a significant influence on the competitiveness of the Kenyan Tea in the global market. The findings were in agreement with findings in a study by Mbui [28] on “Effect of Strategic Management Practices on Export Value Addition in the Tea Subsector in Kenya” where study results meant that Kenya mostly dealt with black CTC teas and hence a very narrow product range which in return acted as a hindrance to competitiveness in international markets. The study further informed that in order to ensure effective promotion of tea value addition in export markets, product diversification strategy must be adopted.

The study findings conformed to the study results by Omari [3] on determinants of export performance of Kenya Tea Development.
Agency managed factories who observed that about 95% of Kenyan tea production is exported in bulk form which makes it a raw material for further processing. Tea Board of Kenya [54-56] also made a similar view. However, even though the current study findings agree with other researchers’ opinions, more emphasis on value addition on Kenyan Tea would increase competitiveness as well as open up new markets. Mbuvi et al. [47] advised that low value addition on Kenyan tea contributes to lower unit earnings from tea exports by Kenya where bulk tea exports are over 90% of the total, as compared to Sri Lanka’s whose bulk exports were about 52%.

Many researchers as reflected in literature review supported the fact that Tea was the leading foreign exchange earner of the country Kenya thus contributing to the economic development of the country and more so supporting the economic pillar of the Vision 2030. The findings by Omari [3] conforms with Mbui [28] where the majority of the respondents indicated product quality as a major emphasis on tea export market as compared to other product differentiation attributes. This observation support the study results that a change in strategic product development practices results to a unit decrease in competitiveness of Kenyan tea in the global market.

A study conducted at Sri Lanka on Strategies for competitive advantage in value added Tea marketing by Herath and Silvai [57-62] emphasised on the importance of a change from bulk tea exports to value added tea products to fit in the world tea market which grows rapidly with emerging customer needs and increasing competition from beverage market [63-74].

### Conclusion and Recommendations

The study revealed that strategic Product development practices negatively influences competitiveness of Kenyan Tea in the global market at 5% level of significance (β1=-0.089). However, this relationship was insignificant (p=0.440>0.05). According to the study results, it was possible to conclude that competitiveness of Kenyan Tea in the global market was influenced by other factors other than strategic product development.

Kenyan Tea according to the respondents was packaged and sold in bulk as loose tea. This creates room for product manipulation through blending with other teas from other markets. Blending makes the Kenyan tea lose traceability in the global markets. The tea sold in bulk also creates room for the buyer to repackaging the tea in smaller quantities. The act of blending and repackaging of the Kenyan tea by the buyers lowers competitiveness of the Kenyan tea in the global market. Respondents indicated that Kenyan Tea lacks branding making it lose traceability in the global markets. Lack of traceability leads to product manipulation which eventually erodes competitiveness.

The consumer’s change in tastes and preferences causes Kenyan Tea to slowly lose its competitiveness in the global market given the nature in which Kenyan tea is exported at. Majority of the consumers prefer other ready to drink beverages to tea. The study recommended that the Kenya tea value chain need to come out with innovative ideas for instance ready to drink tea products to counter the escalating global competition. Such products would entice the growing number of youths in many countries. Other than strategic product development practices, the Kenyan industry players should diverge from a long linear supply chain to a value network in order to make Tea a ‘hero’ crop and enable creation of a more sustainable industry.

### References