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Effect of porter's generic competitive strategies and the performance of soft drink companies: case of Somaliland beverage industry (SBI) in Somaliland.

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Abstract: *The study examined effect of Porter's generic competitive strategies and its effects on the performance of Somaliland Beverage Industry (SBI) in Somaliland. The study found out that the cost leadership, differentiation, and focus strategies have a positive relationship with performance. The researcher based on the research findings concludes that there is a positive relationship between effect of porter's generic competitive strategies and performance of SBI. The study recommends that SBI should embrace and invest in cost leadership strategies most especially forming linkages with service providers, suppliers, the study recommends that SBI should know on what basis to segment their products, services and operations, the study further recommends that in order for company to enhance their performance then they should invest more in differentiating their personnel through continuous training, products and services in order to make them unique and innovative and conducting regular and continuous promotion or advertising campaign to enhance awareness.*
Key words: *cost leadership, differentiation, and focus strategies, Somaliland Beverage Industry (SBI)*

I. Background

In a global sense competitive strategies consist of all those moves and approaches that a firm has and is taking to attract buyers, withstand competitive pressure and improve its market position. Competitive strategies are employed by firms within a particular Industry. The strategies adopted are expected to relate to performance of the company. Long term strategy should derive from a firms attempt to seek and sustain a competitive advantage based on one of the three generic strategies. These are cost leadership, differentiation and focus strategies (Grant 2002). There are various models of competitive strategies; one such as Porter's (1988) generic competitive strategies model which proposes that firms can apply cost leadership, differentiation or focus strategies to gain competitive advantage against competitors. The other is the Resource Based competitive strategy model which proposes that a firm can compete effectively by capitalizing on its single resources which competitors may be lacking and may not easily duplicate. The third model is the grand strategies which is a mass of all kinds of strategies which firms option to in order to be competitive or weather competition. Included here are strategic union, gaining, diversification and many others. This study is focused more on generic competitive strategies and grand strategies. Somaliland Beverage Industry (SBI) is one of the most modern and prestigious industries in the region comprising of a Coca Cola bottling plant, which is the major investment of SBI valued at almost $20 million. The plant is the largest private investment in Somaliland since the region declared itself autonomous from Somalia in 1991. The business was started by Osman Guelle Farah and his sons in 1982. The family was awarded a franchise from Coca Cola in 1983. In the following year, the family ceased operations due to security concerns. However, by 2010, with the improving business and security climate, the business was revived. Investment capital was raised from investor connections in the region, especially from Djibouti, where the family had lived for some time. The company is now well known for its productivity, success, and state-of-the-art facilities (recently opened in May 2012). In many ways the plant has become a shining symbol in Somaliland for how successful Somali entrepreneurs can effectively overcome some of the infrastructural limitations of working in the country (Abdullahi, 2010).

The SBI plant churns out approximately 11,000 bottles of Coca Cola, strawberry and orange Fanta, and Sprite every hour. The plant employs around 60 workers on its facility and many more indirectly, such as truck delivery drivers, and wholesale sellers. The company also pays local Somalilanders to collect empty plastic bottles (rather than glass bottles, because they take less water to wash, and are faster to transport), which are then shipped to India where a company recycles them and pays for the refuse. The factory is expected to generate profits of around $3.2 million each year. The company initially hired expatriates from regional countries to manage and staff the plant. However the company now solely employs Somali workers (many of who were trained by regional expatriates). The plant's location was determined by the proximity to underground water, a crucial input for the product. SBI used hydrological surveys conducted in the 1970s by the Chinese, and advice from village elders, to dig boreholes over aquifers which refill with rain, at the plant's location. Investment for SBI came primarily from Osman Guelle Farah, and the OGF Group Company he founded in Djibouti in 1949. OGF originally worked on shipping and trading goods between Djibouti and Ethiopia, and has since branched into multiple ventures including Guelle Commodities, OGF Real Estate, and OGF Pharmacy. The company also serves as agents for shipping companies such as DHL.

II. Problem Statement

This study endeavored to find out the types of strategies which SBI has adopted to become more successful than all other companies operating in soft drinks within the same market. SBI has been a market leader being preferred by the majority in the Somaliland population. Porter (1980) through the three model generic strategies argues that superior performance can be achieved through pursuit of competitive generic strategies. Identification and pursuit of the right competitive strategy as a source of superior performance has made SBI`s products to become a predominant priority in Somaliland among all other soft drink selling organizations. This research was triggered by the fact that this area remains grey due to the fact that very few studies have been conducted focusing on the porter's generic strategies in developing countries and none at all in Somaliland. Thus, this study was established whether the Porter's generic competitive strategies have effects on the performance of SBI in Hargeisa, Somaliland.

III. Objectives of the Study

i. To determine the relationship between cost leadership strategy and the performance of SBI in Somaliland
ii. To evaluate the effects of differentiation strategy on the performance of SBI in Somaliland
iii. To assess the relationship between focus strategy and the performance of SBI in Somaliland

IV. Justification of the Study

Establishing the effect of porter's generic competitive strategies on the performance of SBI in Somaliland was of vital importance because it shall go a long way in helping soft drink companies located in developing countries to make the right strategic decisions which will help them to remain competitive in the market. The study is also justified due to the fact that while many soft drink companies established their roots in Africa, very few end up succeeding because of the inability to apply good strategies to survive in a ruthless market which calls for 'survival for the fittest' only. The findings from this research will help soft drink companies in Hargeisa, Somaliland in repositioning themselves to compete in the challenging and rival environment. This research is important to the policy makers as it will assist them to identify the right strategies that can be applied to attain competitive advantage. Again the study was deemed to trace the genesis of multinational soft drink companies' failure to penetrate the Somaliland market and then give possible strategies to resuscitate these multinationals. The findings from this research will help scholars and other academic practitioners gain more knowledge and literature for their empirical review.

V. Literature review

The study review the fundamental competitive strategies models which included;

i. Grand strategies model
ii. Porter's Five Forces Model
iii. The Generic Strategies Model

VI. Conceptual Framework

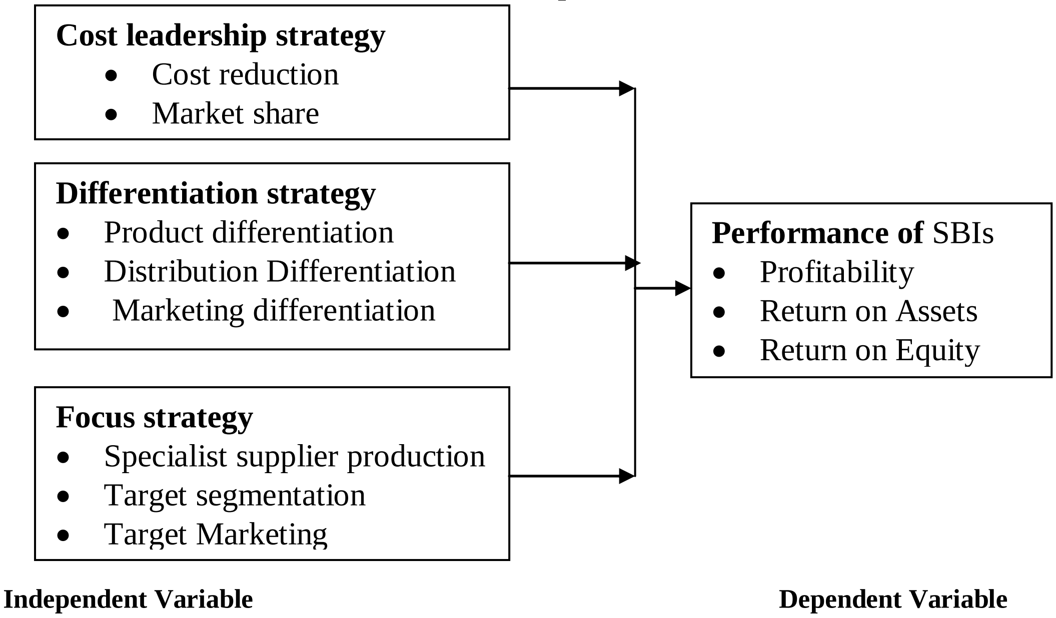

Figure 1: Conceptual Framework.

VII. Research Gaps

Thompson et al. (2008) and Datta (2009) failed to examine how the generic strategies can successfully be linked to organizational performance through the use of key strategic practices. Allen et al., (2006) did not investigate the key competitive practices that define each generic strategy better nor did they identify the critical competitive practices strongly associated with performance for each generic strategy.

Stone (1995) studied Effects of Competitive Strategies on the Performance. But the study doesn't explore the effects of competitive strategies on performance of multinational corporations. The methodology that the researcher used was descriptive survey design and the population of the study was all the employees of the hospital. The study does not explore perceived attractiveness of the freight forwarding industry in relation to Porter's modified framework. The findings of the study were correlates with other studies that posited that the firm can choose to focus on a select customer group, product range, geographical area, or service.

Irene (2014) did not examine how the environments are independently related to performance, or on whether they are moderators of the relationship between strategy and performance or some combination of the two. Mutie (2010) studied the effect of generic competitive strategies on performance of coca cola Company (Kenya). The researcher concludes that competition in the soft drinks sector is very high and effective strategies need to be adopted by Coca Cola (Kenya) to improve performance in the organization. But the researcher did not examine the effective competitive strategy that Coca Cola (Kenya) should need to surpass competition in the bid towards becoming a market leader.

Richard and Wittington (2001) did not examine the influence of competitive strategies and organizational structure on performance nor did they explore whether organizational structure has a moderating effect on the relationship between competitive strategies and performance. The study employed a causal and descriptive research design to determine the cause-and-effect relationships among competitive strategies, organizational structure, and performance based on previous studies. Organizational structure is found to have a moderating effect on the relationship between both of these strategies and behavioral performance. However, the results of the current study show that organizational structure has no influence on the relationship between a brand image strategy and behavioral performance. Those studies contradict each other and there is need for this dichotomy to be clarified.

VIII. Research design

The study used descriptive survey method. This design was therefore adopted for this study as it enables the researcher to obtain a cross-referencing data, as well as an array of options. An analytical model of a linear multiple regression equation of the form shown below was developed.

$Y=\alpha + \beta_1X_1+\beta_2X_2+\beta_3X_3+ e_1$………………………………………………… …………….

Y= Performance of SBI

X_1= Cost leadership strategy

X_2= Differentiation strategy
X_3= Focus strategy

IX. Regression Analysis results

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.0.784[a]	.863	.824	.632

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the above table the value of adjusted R squared was 0.824, an indication that there was variation of 82.4% on organisation performance due to changes in the independent variables which are cost leadership strategy, differentiation strategy, and the focus strategy. This shows that 82.4% changes in the performance of SBI in Somaliland could be accounted for by cost leadership strategy, differentiation strategy, and the focus strategy at 95% confidence interval. R is the correlation coefficient which shows the relationship between the study variables. From the findings shown in the table above there was a strong positive relationship between the study variables as shown by R being equal to 0.784.

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.644	2	0.322	1.3529	.050[b]
	Residual	11.662	49	0.238		
	Total	12.306	51			

From the ANOVA statistics in table above, the processed data, which is the population parameters, had a significance level of 5% which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 5%. It also indicates that the model was statistically significant.

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	Constant	2.321	.433		5.360	.032
	Cost leadership strategy	2.613	.063	.164	41.476	.036
	Differentiation strategy	1.316	.086	.237	15.302	.049
	Focus strategy	2.128	.230	.278	9.252	.050

The established regression equation was
Y = 2.321+ 2.613 cost leadership strategy + 1.316 differentiation strategy + 2.128 focus strategy
From the above regression equation it was revealed that holding cost leadership, differentiation strategy, and focus strategy at 95% confidence interval to a constant zero, performance of the SBI Somaliland would stand at 2.321. A unit increase in cost leadership strategy would lead to increase in the performance the SBI by a factor of 2.613, unit increase in differentiation strategy would lead to increase in the performance of the SBI by a factor of 1.316, and a further unit increase in focus strategy would lead to an increase in the performance of SBI by a factor of 2.128.

X. Summary, conclusions and recommendations

The study found out that SBI minimizes the cost of sales due to the trading of market share and to satisfy their customers to obtaining a high profit, the study also found out Companies that wish to be successful must establish tight control of production and overhead costs because in manufacturing companies production costs and overhead costs if not controlled can make a company to lose profitability and hence competitiveness due to increased total costs. The study found out that producing more units can minimize the costs of production per unit. The study also revealed that SBI soft drinks satisfy customers more than soft drinks of other companies in Somaliland`s beverage industry. The study found that the company has unique products that are different from other companies to achieve competitive advantage.

The study concludes that cost leadership affects performance of SBI in Somaliland through achieving economies of scale. On the objective concerning differentiation, this study concluded that differentiation strategy affects performance of the SBI in Somaliland. The study also concluded that market focus affected performance of the SBI through various aspects such as practicing segmentation based on benefit sought by the customers, physiological aspects of the customers and income level of the customers..

This study recommends that SBI should embrace and invest in cost leadership strategies most especially forming linkages with service providers, suppliers since it will enable them achieve competitive advantage as compared to other companies which imports the soft drinks in the outside of the country that are not investing in these strategies. The management should respond to the customer choices and market demand to achieve competitive advantage and greater market share.

XI. Suggestions for Further Research

A similar study could be carried out in other organizations to find out whether the same results will be obtained. This study also suggests that a research study could be carried out to determine factors influencing effective implementation of competitive strategies in the industry.

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