Product Strategy and Performance among Real Estates Firms in Mombasa County

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ABSTRACT

Organizational performance refers to the ability of an enterprise to achieve such objectives as high profit, quality product, large market share, good financial results and survival at pre-determined time using relevant strategy for action. The general objective of the study was to investigate product strategy and its effect on the performance among real estate firms in Mombasa County. The specific objectives of the study were to determine the effect of product development strategy, product differentiation strategy, product diversification strategy, product segmentation strategy and product liquidation strategy and performance among real estate firms in Mombasa County. The theoretical framework of the study consisted of the Ans off theory, the grand selection strategy theory, the generic strategy theory and the balanced score card theory. The study employed explanatory research design and the target population was 125 real estate firms in Mombasa County. The sample size was 97 real estate firms derived using the Taro Yamane sampling formula. The study established that product development, product differentiation strategy, product diversification strategy, product segmentation strategy, and product liquidation strategy had a positive and significant influence on performance of real estate firms in Mombasa County. The study recommended that managers need to employ product development, product differentiation strategy, product diversification strategy, product segmentation strategy, and product liquidation strategy so as to increase the performance of real estate firms in Mombasa County.

INTRODUCTION

The word "organizational performance" refers to an organization's capability of achieving a set of goals, such as high profit, quality product, huge market share, strong financial results, and survival within a predetermined amount of time by employing an appropriate plan for action. The word "organizational performance" refers to the social and economic results that come about as a result of the interaction between the characteristics, behaviors, and surroundings of a particular organization (Adler & Goldoftas, 2019). This suggests that the success of an organization is impacted by a diverse range of external factors over which a company has very little influence or none at all, depending on the circumstances. The performance of an organization can be measured using both financial and non-financial metrics as the basis for the evaluation. The financial performance, the product-market performance, and the shareholder return are the three distinct aspects of a company's results that are included in organizational performance. Organizational performance can be measured in terms of financial ratios (ROA, ROE or market outcomes), human resources related outcomes (job satisfaction, commitment) outcomes, or organizational outcomes (productivity, service quality, new products). Alternatively, organizational performance can be measured in terms of human resources related outcomes (job satisfaction, commitment). According to Irungu (2018), the success of an organization may be evaluated based on factors such as product sales, production efficiency, capacity building, timely fulfillment of orders, decrease in operating cost, satisfaction with consumers, and revenue utilization.

A product strategy is a high-level plan that describes what an organization wants to achieve with its product and how it intends to do it. The strategy should provide responses to important questions such as who the product is intended to serve (personas), the ways in which it will benefit those personas, and the company's goals for the product at various stages during its life cycle. (Hitt, Ireland, & Hoskisson, 2020). Product development, product differentiation, product diversification, product segmentation, and product liquidity strategies should all be included in a solid product strategy. A product development plan will either involve the creation of new products or the modification of existing products in order to give the impression that they are new. These products will then be offered to existing markets or to new markets. It is a term that refers to the processes and activities that are carried out in order to introduce new products to a market or to adapt existing products in order to generate new lines of business. It has the potential to contribute to an increase in sales and market share if it is carried out effectively (Di Benedetto, & Song, 2019).

Since the year 2000, the global real estate industry has been exhibiting an upward trend that is expected to continue until 2019. The real estate industry is experiencing fierce competition as a result of the increasing number of new entrants every day and the growing number of purchasers. It was anticipated that the total value of the worldwide market will increase from $2.7 trillion in 2020 to $3.7 trillion in 2021. (PWC, 2020). A robust economy that was able to avoid the global economic slump has been a driving force behind the favourable performance of the real estate market in the United Kingdom. (Sambasivan & Soon, 2017). The Brussels metropolitan area, which is home to around 2.5 million people, is a sizeable and strategically significant portion of the real estate market in Belgium. (Gunduz & Yahya, 2018). DB Real Estate Research (2003), on the other hand, says that the real estate market in Brussels and the rest of Belgium is one of the least active in Europe. This is because of the high transaction costs and taxes, as well as the large amount of bureaucracy and social economic legislation.

The growth in real estate prices in Beijing, Shanghai, and Shenzhen is significantly outpacing China's average yearly income that is considered disposable. The fact that investors in China have fascinating investment prospects for the real estate market, which attract investment by foreign investors, is the primary reason why property prices rate in China are so high. (Al-Tabtabai, 2021). The consistent shifts in public policy that have been made towards the various real estate markets in Asia have contributed to the current boom in the region's real estate industry. (Hussin & Omran, 2018). Prices and rents fell sharply in Asian markets in 2008 and early 2009, just like they did in the West. However, the remarkable strength of the Chinese economy, which has been boosted by a number of fiscal and monetary stimulus measures, has helped real estate markets across Asia in the second half of the year. Fapohunda & Stephenson (2019) stated that low lending rates, robust demand, and speculation have been pushing property prices upward in several Asian cities, with some cases surpassing peaks that were attained in 2007. Both a lack of available housing and steadily rising home prices are two of the challenges that Singapore is currently confronting. There is a lack of apartments and strong demand from buyers, which is quickening price increase in Singapore. Some analysts are advocating for property cooling measures to be revisited as a result of this price growth. Because there was a limited amount of land in Singapore between the years 2007 and 2008, the demand for public housing had been expanding at a rapid rate. As a result, Singapore had a housing crisis.

The real estate market in Kenya has exhibited both an increasing and a decreasing tendency during the course of recent history. Beginning in the early 2000s and continuing through 2018, an increase trend was observed, but beginning in 2019, a downward trend emerged. This is further compounded by the fact that the global economic crisis that is currently being experienced has a negative impact on the spending power of middle-class consumers. As a direct consequence of this, the demand for commercial and residential developments that have already been finished is continuing to be drastically reduced (KPDA, 2020). The contribution of Kenya's real estate market to the country's gross domestic product (GDP) has climbed at an exponential rate, rising from 10.5% in the year 2000 to 12.6% in 2012, 13.8% in 2016, and 20% in 2021. This growth can be seen as proof of the industry's explosive expansion. Westlands, Lavington, Kilimani, and Kileleshwa contribute the most to the overall market value with an average rental yield of 12 percent for unfurnished flats and 20 percent for furnished units, respectively. (Ndungu, 2019).

Statement of the Problem

According to the Kenya National Bureau of Statistics (2016), the real estate sector is one of the most important economic drivers in the country as it contributes approximately Ksh. 259.6 billion ($2.86 billion) or 8.8 percent of the country's GDP. The contribution of the Kenyan real estate market to the country's gross domestic product has increased at an exponential rate over the past two decades, rising from 10.5% in the year 2000 to 12.6% in 2012 and 13.8% in 2016, and is projected to reach 20% in the year 2021. In 2017, the profitability slowed down by 18.4% (Cytonn Investments, 2018). Mwaita (2020) added that the huge decline in real estate profitability by 49.5% in 2020 was majorly due to the withdrawal of external investors in the country. Gathuru (2014), noted that the real estate market in Kenya has been highly profitable, particularly for outside investors, with profit margins ranging from 20% to 30%, which is significantly higher than the markets in the United States of America and Europe. In comparison to other major cities, such as London (12.1%), Miami (19.1%), New York (3.1%), Singapore (4.7%), Moscow (9.8%), and Shanghai (-3.4%), the value of high-end real estate in Nairobi climbed by 25% and by 20% in the coast region of Kenya respectively. With a projected growth rate of more than 20% by the year 2025, Kenya's real estate market is expected to become one of the most rapidly expanding in the world.

In Kenya, the industry has been marked by both an increase and a negative trend over the past few years. Beginning in the early 2000s and continuing through 2018, an increase trend was observed, but beginning in 2019, a downward trend emerged. According to the KNBS Economic Survey 2020, the real estate sector in Kenya showed a growth rate of 5.3 percent in 2019, which is 1.2 percentage points more than the growth rate that was registered in 2018 (4.1 percent). The Cytonn Q1'2020 Markets Review revealed further that the real estate sector experienced moderate activity, with average rental yields improving marginally in both the residential and commercial office sectors to 5.2 percent and 7.8 percent respectively, up from 5 percent and 7.5 percent in the fourth quarter of 2019, respectively. However, rental yields in the retail sector dropped from 7.8 percent in the final three months of 2019 to 7.7 percent in the first quarter of 2020, a decrease of 0.1 percentage points. With these results, it’s expected that the real estate firms will perform as well, but this has not always been the case.

Research Gap

Namusonge (2017) found that the development of new products had a beneficial effect on a company's overall financial performance. Muzny, & Simba, (2019) came to the conclusion that a differentiation strategy has a beneficial influence on the success of companies. According to Ngunjiri (2022), an increase in the amount of foreign direct investment in Kenya will result in a rise in the profitability of real estate companies in that country. Omosa, Muya, Omari, & Momanyi, (2022) and Maranga, Ngali, & Wepukhulu, (2022) both found out that product diversification strategy has positive effects on firm performance. Despite the wealth of current existing literature, there still exists a gap on the effect of product strategy on performance of real estate firms. Therefore, this study sealed the gap by establishing product strategy and its effect on the performance among real estate firms in Mombasa County.

General Objective

The general objective of the study was to investigate effect of product strategy on the performance among real estate firms in Mombasa County.

Specific Objectives

The following objectives guided this study:

i. To determine the effect of new product development strategy on the performance among real estate firms in Mombasa County.

ii. To examine the effect of product differentiation strategy on the performance among real estate firms in Mombasa County.

iii. To examine the effect of product diversification strategy on the performance among real estate firms in Mombasa County.

iv. To investigate the effect of product segmentation strategy on the performance among real estate firms in Mombasa County.

v. To establish the effect of product liquidation strategy on project performance among real estates in Mombasa County.

Research Hypothesis

The following null hypotheses were tested in this study;

Ho_1: Product development strategy has no significant effect on the performance among real estate firms in Mombasa County.

Ho_2: Product differentiation strategy has no significant effect on the performance among real estate firms in Mombasa County.

Ho_3: Product diversification strategy has no significant effect on the performance among real estate firms in Mombasa County.

Ho_4: Product segmentation strategy has no significant effect on the performance among real estate firms in Mombasa County.

Ho_5: Product liquidation strategy has no significant effect on the performance among real estate firms in Mombasa County.

LITERATURE REVIEW

Theoretical Framework

The theoretical framework of the study was derived from the Ans off theory, the grand strategy selection matrix theory, the generic strategy theory and the balanced score card theory.

Igor Anns off Theory

The Ans off Matrix is a paradigm that claims that in order for an organization to develop its presentation, it is necessary to attain product and market expansion through four different tactics. These techniques vary depending on whether or not a firm or product has previously or is now present in the market. The theory takes into account two different spheres of influence in its measurements: one measurement is based on the product being either new or current, and the second measurement takes into account the market as either new or existing. This approach aims to achieve market dominance by winning customers from competitors, attracting non-users, and having current users buy more by selling more of the existing products in an already existing market. Market penetration, which entails selling more of the existing products in an already exiting market, possesses the lowest risk. When it comes to product development, strategic businesses aim to differentiate products for existing markets that are comparable to one another. For instance, a business may try to adjust the packaging sizes or develop new recipes for existing products in the market that are comparable to one another. (Ahmed, & Ahmed, 2021). The introduction of new items into already established markets is one of the primary objectives of businesses, and consequently, the development of new goods is considered to be one of the several sorts of growth strategies. According to Kaskutas (2020), a strategy such as this one might need the development of a variety of various competences in addition to the production of updated products that could be presented to markets that are currently in existence. This theory came in handy for this investigation because it provided support for both the product development and the product diversification strategies.

Grand Selection Strategy Matrix Theory

The Grand Strategy Matrix is an approach that recognizes multiple options for strategy that firms have according to the strength of their competitive positions and the growth of their industries. The matrix is divided into four quadrants by an x- and y-axis, and each quadrant represents a combination of a company's competitive position and the growth of the market. The competitive position of the company is shown along the x-axis, with the left side representing low levels of competitiveness and the right side showing high levels of competitiveness. The y-axis depicts the expansion of the market, with the upper half representing a quick expansion and the lower half showing a gradual expansion. A list of strategic alternatives that, depending on where they land, may be beneficial to a corporation is contained within each of the four quadrants. (Davis, & Hersh, 2019). The theory was applicable to this research because it lent support to three different product strategies: product development strategy, product diversification strategy, and product liquidation strategy.

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Generic Strategy Theory

The Generic Strategies are a tool that can be utilized to ascertain the direction (plan) that a company or organization should take. Michael Porter proposes the usage of four distinct approaches from which a company or organization may select one. He is of the opinion that in order for a business to be successful and outperform its rivals, it must first determine what direction it will go. You have the option of selecting from the following four strategies: the cost leadership strategy, the differentiation strategy, the cost focus strategy, or the differentiation focus approach. The goal of the cost leadership approach is to attract a significant portion of the market (one that has a high demand) while maintaining the most competitive pricing. Within this cost leaders strategy, you have two options: either keep your expenses as low as possible, or ensure that you have a greater market share by charging prices closer to the market average. In either scenario, the goal is to maintain the lowest possible level of operating expenses for the business. Companies that are able to successfully implement this strategy typically have a sizeable amount of investment capital available to them, as well as efficient logistics and low costs in terms of both commodities and labor. (Porter, 2019). The differentiation approach aims to target a large market that has a high demand for your product or service while also highlighting its distinctive qualities. The product is created to be as exclusive as is practically possible, which makes it more appealing than similar products that are given by the rival company. To be successful when utilizing this technique, one must be capable of excellent research and development, invention, and the delivery of high-quality work. The theory was useful because it helped with both the product differentiation strategy and the segmentation of products strategy.

The Balanced Score Card Theory

According to Kaplan and Norton (2020), the balanced scorecard system translates the strategy of an organization into performance objectives, metrics, targets, and initiatives. It is founded on four distinct but complementary points of view, and the idea of cause and effect serves as the connecting thread that holds everything together. It is a strategic management performance metric that is used to detect and improve various internal business operations and the impacts that these functions have on the outside of the organization. The Business Service Center (BSC) model was initially developed for for-profit enterprises but was subsequently adapted for use by nonprofit organizations and government agencies. The approach of the balanced scorecard encourages positive behavior inside a company by separating into four distinct areas those aspects that need to be evaluated. These four domains, commonly referred to as legs, include learning and development, business processes, customers, and financial matters. The Business Strategy Canvas (BSC) is a tool that is utilized to compile significant pieces of information, such as objectives, metrics, initiatives, and goals, which are the direct results of a company's four key tasks. (Ahmed, et. al. 2020). Because it provided support for the performance variable, which was the dependent variable of this study, the theory proved to be helpful in this investigation. Therefore, the BSC was the theory that served as the anchor.

Conceptual Framework

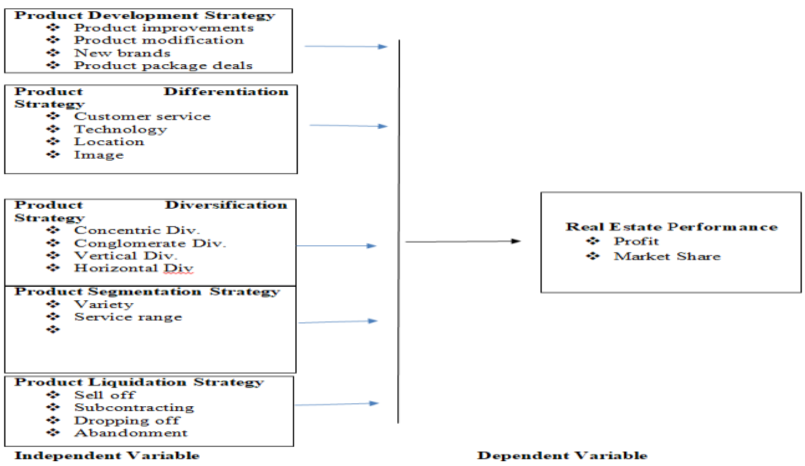

Figure 2.1: Conceptual framework

RESEARCH METHOLOGY

The study used an explanatory research design which was most appropriate for investigating a phenomenon that has not been well explained previously in a proper way (Kothari, 2016). The target population was 125 real estate firms operating in Mombasa County as at December 2022 and the Neyman allocation sample formulae was used to arrive at a sample size of 97 firms. The research used both a stratified sampling methodology to split the target population into the five sub counties and a simple random sampling method to select the sample size of 97 real estate firms for the investigation (Creswell, & Creswell, 2017). Structured questionnaires were used to collect primary data. Data analysis was done using SPSS program (Field, 2018). Descriptive statistics (mean, mode and standard deviation) and inferential statistics (correlation analysis, multiple linear regression analysis, ANOVA and Model summary) were generated to explain the relationship between the independent and the depended variables.

FACTOR ANALYSIS RESULTS

Table 4.2: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.820
Bartlett's Test of Sphericity	Approx. Chi-Square	1125.618
	Df	190
	Sig.	.000

Source: Research data (2023)

The results of the Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy and the Bartlett's Test of Sphericity are given in table 4.4. These results that the FA was appropriate. This is because the KMO obtained (0.82) is closer to 1.0 and the Bartlet's Chi-square (1125.618) is significant indicated by significant p-value of less than 0.0001.

Table 4.5: Cronbach's Alpha Results

Factor	Number of items	Cronbach's alpha
Firm performance	2	.699
Product development	4	.876
Product differentiation	4	.854
Product diversification	4	,798
Product segmentation	3	.932
Product liquidation	4	.887

Source: Research data (2023)

The results show that all the items met the reliability threshold of a Cronbach's alpha of greater than 0.7. The product segmentation construct had the highest reliability of 0.932 and product diversification Construct had the least Cronbach's alpha of 0,798. This shows the study instrument has internal consistent and can therefore replicate the findings if used under similar circumstances.

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Descriptive Results

Table 4.1: Descriptive Results

Variable	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Product development	4.49	1.018	.999	.233	.265	.461
Product differentiation	3.96	1.027	.804	.233	.114	.461
Product diversification	3.83	.838	.896	.233	.859	.461
Product segmentation	4.31	.932	.762	.233	-.007	.461
Product liquidation	4.06	.687	-.788	.233	1.551	.461

Source: Research data (2023)

The mean scores ranged from 3.83 (product differentiation strategy) to 4.4.9 (product development strategy) with an average mean of 4 translating to 'agree'. The standard deviation shows the variation in response regarding the presence of favorable product strategy efforts from one across the firms. The standard deviation ranged from 1.018 to 0.687. The results implies that, the responds agreed to the presence of the strategy and that they marginally affect performance of real estate firms.

Correlation Results

Table 4.2: Correlation Results

		Performance	Differentiation	diversification	segmentation	Liquidation	Development
Performance	r	1					
	Sig						
Differentiation	r	.564**	1				
	Sig.	.000					
diversification	r	.380**	.484**	1			
	Sig.	.000	.000				
segmentation	r	.575**	.574**	.522**	1		
	Sig.	.000	.000	.000			
liquidation	r	.500**	.437**	.407**	.791**	1	
	Sig.	.000	.000	.000	.000		
Development	r	.529**	.520**	.458**	.424**	.388*	1
	Sig.	.000	.000	.000	.000	.000	
**. Correlation is significant at the 0.01 level (2-tailed)., r= Pearson correlation sig; significant 2 tailed							
b. Listwise N=98							

Source: Research data (2023)

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Correlation results show that product strategies are positively and significantly related with performance in real estate firms as similarly observed by Muzny and Simba (2019) who indicated that product strategy influences financial performance. Product development strategy showed the strongest bivariate association with firm performance (r=.529, p<.05). However, product liquidation showed the weakest association with performance in real estate firms (r=767, p<.05). The observed positive association results suggest that product strategies are potential determinants of firm performance. It is on the basis of these correlation results that the five measures of product strategies are modeled as predictors of real estate performance in multiple regression framework. The findings are supported by Muzny and Simba (2019) who observed that product strategy influences financial performance.

Multiple Linear Regression Analysis

Regression analysis was used to infer causal relationships between variables and assess whether changes in independent variables cause changes in the dependent variable.

Model Summary

Table 4.3: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.919[a]	.845	.836	.40462945

Source: Research data (2023)

The R-square in the model summary results shows the variance explained by he set of independent variables in the model. The model summary results show that the IVs in the model accounts for 83.7 % of variance in performance.

Analysis of Variance ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	81.937	5	16.387	100.091	.000[b]
	Residual	15.063	92	.164		
	Total	97.000	97			

Source: Research data (2023)

The ANOVA shows the suitability of the whole model that relate the IVS to the DV. The ANOVA results (Table 4.10)

Multiple Linear Regression Co-efficient

Table 4.4 Multiple Linear Regression Coefficients

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-8.375	.041		.000	1.000
	Product development	.517	.059	.517	8.795	.000
	Product differentiation	.254	.056	.254	4.563	.000

	Product diversification	.156	.050	.156	3.098	.003
	Product segmentation	.318	.069	.318	4.604	.000
	Product Liquidation	.064	.050	.064	1.284	.202

Source: Researcher (2023)

The regression coefficient results shows the significance of each the indented variable on the dependent variable. This implies that increased product development strategy, product differentiation strategy, product diversification strategy, product segmentation strategy and reduced product liquidation strategy increases performance of real estate firms in Mombasa County. The derived model was as shown;

$\mathbf{Y}= -8.375+.517X_1+.254X_2+.318X_3+.156X_4 +.064X_5$

SUMMARY OF KEY FINDINGS

The study found that product development had a positive and significant effect on performance of real estate firms in Mombasa County. Namusonge et al (2017) found similar findings which showed that strategic product development practices have a positive and significant influence on financial performance. Successful products need a strong product development team to conduct practices that foster the success of developed products. The study also found that product differentiation had a positive and significant effect on performance of real estate firms in Mombasa County. Pearce & Robinson (2007) supports the findings and states that product differentiation help businesses achieve superior performance in an important customer benefit area valued by a large part of the market. Further, the study found that product diversification had a positive and significant effect on performance of real estate firms in Mombasa County. In support to the findings, Collis and Montgomery (2020) diversification allows you to remain profitable during industry ups and downs, as a society, the economy, and consumerism fluctuate. Diversification allows a firm to maximize a company's current resources, which may be underutilized. On Product segmentation strategy, the study found that product segmentation had a positive and significant effect on performance of real estate firms in Mombasa County. Duboff and Spaeth (2019) similarly found that product segmentation provides a mechanism for a company to distribute the risk of selling a high-cost product across different target markets. Debnath and Nair (2021) established that the strategy leads to increase in customer satisfaction and profitability by targeting specific segments with tailored products or services. On Product liquidation strategy the study revealed that product liquidation had a positive insignificant effect on performance of real estate firms in Mombasa County. In contrast, Gaviria, & Xia (2021) established that that liquidation provides extra cash that may be utilized in other divestments.

CONCLUSIONS

1. Increased product development strategy increases performance of real estate firms in Mombasa County
2. Increased differentiating strategy increases performance of real estate firms in Mombasa County
3. Increased diversification strategy increases performance of real estate firms in Mombasa County
4. Increased product segmentation strategy increases performance of real estate firms in Mombasa County
5. Reduced product liquidation strategy increases performance of real estate firms in Mombasa County

RECOMMENDATIONS

1. The management of real estate firms should have built on a clear product development road map that ensures the products (houses) are accepted and adopted by the wider market.

2. The management should have a clear differentiation philosophy by directing their effort to put product (or service) in a unique market position that gives them an edge over competitors.
3. Availing different houses for diverse markets help expand the market. The real estate's management should therefore invest in human skills on diversifying their products and services that provides variety of products so as to appeal to a large market.
4. The real estate management should reduce liquidation of houses instead renovate them and continue offering them to customers.

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