

Effects of New Product Development on Customer Attraction by Saccos in Baringo County Kenya

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Abstract

This study sought to establish the effects of new product development on customer attraction by Sacco's in Baringo County. The population of study were the 5 Sacco's fully registered and licensed by Sacco societies regulatory authority (SASRA) according to SASRA Act 2010, and Sacco Act 2008 with a population of 11,625 out of which a sample of 384 members was systematically randomly selected. The study adopted descriptive survey research design and data was collected through questionnaires and analyzed using descriptive and inferential statistics, the study established that most Sacco's have poor product development policy and marketing strategies for their new products. The following were the recommendations Sacco managers should carry out customer demographic survey to profile their customers unique needs, and design products to meet those specific needs, and should carry out market survey to establish their competitors offering, and finally they should carry out its product portfolio analysis.

Key words

- SACCO – Savings and credit cooperative societies
- IMF – International monetary fund
- WOCCU - World organization of cooperative credit union
- SASRA - Sacco society's regulatory authority
- MFI - Micro finance institutions
- PLC - Product life cycle
- CBK - Central bank of Kenya

1. Introduction

1.1 Background of the Study

World organization of credit unions (Woccu) statistical report of 2012 shows that there are 55952 savings and credit cooperative societies in the world with total membership of 200,243,841 and savings of over 1trillion US dollars and asset base of over 1.6 trillion US dollars Woccu report ,(2009) indicates that savings in Sacco's across sub Saharan Africa grew by average of 31.9% in 2008, comparable to average savings growth rate of 30.6 % in 2007 and 27.9% in 2006 growth in number has been steady donors and partners have channeled fund through Sacco's to target specific clients this practice can harm Sacco's external funding and decreases incentives to mobilize savings . According to SASRA, (2012) statistical report ,Sacco movement in Kenya is billed as the largest in Africa and among top ten globally with over 230 billion shillings in assets and saving portfolio estimated at 190 billion shillings ,Sacco movement constitute significant proportion about 20% of total domestic savings therefore Sacco's have become vital component of Kenyan economic and social development .According to Robert, (2012) in today's business environment the only constant is change, successfully organization effectively manage change by continuously aligning their business strategies and business operation systems, products line and their organization culture and structures to the needs and demands of the ever changing environment, Kotler &Armstrong, (2008) cites that continuous innovation is the most important tool for Sacco's to remain constantly competitive.

1.2 Statement of the Problem

Financial service sector is very competitive sector ,where several players like Sacco's ,commercial banks and microfinance institutions are fighting for the same customers therefore Sacco's have to adopt certain strategies for them to remain competitive ,studies have been done in the past on the strategies adopted by Sacco's and the factors affecting implementation of this strategies among them are, Gichobi ,(2006) who did a research on strategies which Sacco's can use to gain competitive advantage in Kenya ,Survey of Sacco's within Nakuru Municipality, Whereas the above study dwelled much on the types of strategies which Sacco's can adopt to gain competitive advantage, ,the above study did not address the issue of effects of this strategies on attraction of customers by Saccos and yet Sacco's continue to lose their members to commercial banks and other financial service providers like micro finance institutions,

1.3 General Objectives.

The general objective of this study was to investigate the effects of new product development on customers attraction in Baringo County

1.4 Justification of the Study

The findings of this study will benefit, policy makers who include the management committees and the managers of the Sacco by providing information on the appropriate product development policy to adopt

2. Literature Review

2.1 Introduction

This chapter reviews the existing literatures theories and models related to the variables used in the study, a review of past studies on the area of study.

2.2 New Product Development

This is the complete process of bringing new product to the market, there are two parallel paths involved in new product development process one path involves idea generation, product design , and detail engineering the other path involves market research and market analysis

There are eight steps for new product development,

Ideas are generated through basic research, using SWOT analysis ,brainstorming, ,idea screening objective is to eliminate unsound concepts before putting more resources into the process questions like what benefits will the target market benefit from the product ,size of the market segment ,technical feasibility to manufacture the products ,concept development and testing is the third step it involves developing marketing and engineering details investigate intellectual property issues, features to be incorporated ,benefits and consumers reaction to the product the fourth step is business analysis it involves estimation of likely selling price based upon competitors and consumer feedback, fifth step is beta testing and market testing physical prototype test and packaging and make adjustment where necessary, sixth step is technical implementation initiation of the new product resource estimation planning, commercialization ie launch the product and finally pricing the new product according to Koen et al, (2007)

Incremental products are considered to be cost reduction ,improvement to existing products line addition to existing platforms and repositioning of existing products introduced into the market while breakthrough products are new to the company and also new to the world have greater performance and highly improved ,platform products establish a basic architecture for next generation product .

2.2.1 Systematic inventive thinking approach

Systematic inventive thinking is highly disciplined approach to new product idea generation that represents both the interest of customer and the company according to Armstrong, (2006) list all the elements of product in terms of physical components and attributes multiplication adding elements to the product, division breaking down the existing products into components parts ,task unification assigning new tasks to the products attribute dependence changes shows relationship between attributes of a product and attributes of immediate environment.

Ansoff, (1987) developed four directional strategies model called product /market matrix as a tool for corporate level strategic choice among the directional strategies is product development where there is new product in existing market include introducing new product, modify, or offering complementary products to existing markets eg increase market share be innovative leader or utilize production capacity more efficiently ,utilize distribution networks.

Kotler and Armstrong, (2008), define companies and competitors offering similar products and services to same customers at similar price and identified company from industry, and market point of view. Companies trying to satisfy same customers' needs have to build closer relationship with the customers. The essence of strategy lies in creating tomorrow's competitive advantages faster than the

competitors. Good product development strategy ensures that new products features, modification of products is sufficiently done when products reaches maturity stage in the product life cycle

2.2.2 Competitive strategies

Michael Porter ,(1985) suggested three generic competitive strategies for protecting new markets or strategic business units and two of this strategies provide key focus on developing new products they are ,Differentiation which exploit new or unique markets good for strong low cost competitor, segment markets and offer differentiated products and services to the new market segment offer unique features products, focused relationship building. And Focus involves targeting activities to selected segment of the market, either by providing goods or services at a lower cost to that segment cost focus or by providing differentiated product or service for the needs of that segments focus strategies enable organization to target their marketing mix decision to their needs of specific customer groups.

Luiz Motinho & Geoff ,(2006) cites the importance of market segment and the kind of products the company chooses to offer serve and says that it determines where business will compete effectively , sustainable differential advantages occurs due to superior products , Low prices , better after sell services he further says for products to have sustainable and differential advantages it must provide the customers the benefits, be unique , sustainable, profitable, after a firm has created its differential advantages it can enhance its competitiveness through positioning itself by diversify its products, introduced new brands, changes existing brands, change customers believes

2.3. Attraction of Customers

Douglas ,Ford & Sam Ibrahim ,(2008) says that total quality management is a people focused management systems aimed at ensuring continued increase in customers satisfaction continually lower real cost total quality system approach plays integral part of high level strategy market industrial across functional departments involves all employees top to bottom extended supply chain of customers chain. According to Strauss el Ansoury, (2004), the degree of customers loyalty has tendency to be higher when perception of both cooperate reputation and cooperate image are strongly favorable. Additional interaction between both contributes to better explanation of customer loyalty.

.Pearce & Robinson,(2005), insist that product quality should be related to customers needs , product quality is determined by customers views about the product quality which satisfy customers requirement it is important for Sacco's when introducing new product to conducts good environmental scan to ensure introduction of right product at the right time to exploit opportunities in the market and minimize threats.

2.4 Empirical Review

Kamau ,(2006) found out that most Sacco's have no adequate loan policy governing savings and lending procedures they also lack proper loan recovery procedure and loan write-offs policy this causes greater risk to Sacco's liquidity ,other Sacco's lack sufficient funds to lend to members ,members may have to wait for a period of 14-30 days to access loans and others have to continuously save shares for duration 6-12 months in order to qualify for loans, he also found out that Sacco's lacks clearer cut direction for what they are doing, what they want to achieve or progress they are making they does not have guiding strategic plan. They don't have tighter structures to support effective delivery of services. They don't carry out market survey to know customer needs and no systematic process of product development. Kilonzi, (2012) says that to help Sacco's meet challenges, the new legislation was drafted in 2007 and passed in 2008 to guide withdrawal and deposit taking Sacco's. (SASRA) and took effect in

2010 a new body to regulate Sacco's operations in Kenya, by setting standards and enforcement mechanisms to increase financial position soundness and protect members deposits.

Assefa, (2007) observes that intensity of variety seeking customers is a limitation to the potential achievement of customers' retention program, based on perceived quality and customers' satisfaction. Birchal et al, (2008) observes that the level of involvement of service to the customers is likely to increase by means of making service more important to the customer example linking perceived risk with his her values or personal position or personalized services.

2.5 Critique of Past Literature

Environmental analysis seeks to uncover relevant information required to undertake proper product portfolio planning but it fails to show the steps of carrying out environmental analysis for identification and balancing, stars products or cash cows, dogs and question marks, however (BCG) Boston consulting matrix model could be suitable. Porter, (1985) five forces analysis provides clear analysis of the external environment in which the company operates and the competitiveness of the industry, however it fails to consider the effect of government intervention regulation and taxation policy which can also affect greatly the possibility of new entrants into the market ,laws and regulation example on contracts, consumer protection issues, employment, health and safety regulation.

3. Research Design

The researcher adopted descriptive survey research design using a sample of 5 Saccos which are licensed and registered according to SASRA Act 2010 and Sacco Act 2008 in Baringo County,the 5 saccos have total membership of 11625 and a sample of 384 members were selected systematically in random manner, this design was suitable because the researcher intended to collect quantifiable information from the sample that describe existing relationship between variables . According to Mugenda & Mugenda, (2003) survey design is used to collect original data and can be used to describe relationship between two variables.

4 Principal Findings

4.1 Introduction

This section highlights the analysis of data based on objective, independent variable and presentation of research findings and discussions of the results.

4.2 Response Rate

The researcher distributed a total of 384 questionnaires to Sacco members as per the sampling technique used in the research study, total of 326 questionnaires were collected from members representing response rate of 84.8% the researcher felt that this response rate was significant enough to form the basis for these study.

4.3 New product development

The objective of the study was to establish the effects of development of new product and services on customer attraction

From the findings 78% of the members agree that development of new products and services by Sacco influences attraction of customers while 22% of the respondents did not agree that development of new products can influence customer attraction in Saccos.

From the findings 50% of the respondents agreed that development of new products and services by Sacco influences greatly the attraction of customers, 28% of the respondents agreed that development of new products moderately influence the attraction of customers in Saccos while 22% of the respondents did not agree that development of new products can influence customer attraction by Saccos.

From the findings 44.8% of the respondents relay information to the management on their desire for new products through suggestion box ,33.1% of the respondents relay through delegates on annual delegates meetings and 22.1% relay through other means like notices and newsletters.

The findings indicate that 35.9% of the respondents felt that the management developed new products based on their needs or needs of the customers,31.1% of the respondents felt that new products were developed based on management decision,26.3% of the respondents felt that new products were developed based on competitors moves while 6.7% of the respondents felt that new products are developed based on other considerations like research ,market survey.

The findings indicates that 34.6% of the respondents felt that new products are frequently developed by their Saccos ,33.1% of the respondents felt that new products are developed infrequently and 32.3% of the respondents felt that new products are developed very frequently

4.4 Hypothesis Testing

New product development has chi square value of 29.368^a with significance of 0.000 which is less than critical value of 0.05 or 5% this therefore establishes that customer attraction depends on new products development and hence disapproves the hypothesis that there is no relationship between new product development and customer attraction this therefore confirms the results obtained by Hassan, (2011) indicating that there is positive relationship between effective use of strategic management practices and customer attraction by Saccos.

4.5 Summary

The findings indicates that 78% of the respondents believe that development of new products greatly influence customer attraction therefore majority of the respondents believe that new product development greatly influence customer attraction by Saccos .44.8% of the respondents express their desire for new products through suggestion boxes while 35.9% of the respondents believe that their Sacco's develop new products based on their needs This finding show that majority of customers are not happy with the product development policy of their Sacco's because they do not capture the needs and wants of customers ,therefore the Sacco have poor marketing techniques.

5. Recommendations

The following are the recommendation from this research study:

The management of Sacco's should carry out customer demographic survey so that they can profile the customer's needs and desires so that they can design demand driven products and services which are flexible, and sensitive to the needs of the customers and are within the ability of customers to repay.

The Sacco management should also carry out deeper and comprehensive market survey to establish the current competitor's offerings, and potential competitors products offerings ,this will help the Sacco management to identify potential threats to its existing customer base and therefore seek ways to outwit the competitors.

The management should also carry out comprehensive analysis of product portfolios or audit its product portfolios to identify the stars ,cash cows ,dogs ,and problem child this will enable them plan for future product portfolios and strengthens its product offerings.

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