STRATEGIC PRODUCT INNOVATION ON SUSTAINABLE COMPETITIVE ADVANTAGE OF ALCOHOLIC BEVERAGE INDUSTRY: A CASE OF EAST AFRICAN BREWERIES LIMITED; KENYA

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ABSTRACT

Strategic management is important for attainment of organization's goals and objectives; hence it involves continuous planning, monitoring, analysis and assessment of all functions that makes an organization excel competitively. This study had the strength of relying on literature of strategic product innovation and sustainable competitive advantage. The impression of this study was on how firms can employ strategic product for competitive advantage in their respective industries. This study focused on the literature review of the companies' strategic plans and performance reports related to competitive advantage. The objective of the study was to find out the effect of Strategic product innovation on sustainable competitive advantage of Alcoholic beverage Industry; Kenya. The study used a descriptive survey research design on consideration of a population target of East African Breweries Limited officers. Data collection was done through structured questionnaires by use of stratified sampling technique on all concerned population of the study. Analysis of data of the study was done by use of Statistical Package for Social Sciences (SPSS 24) in order to solve concerned information of descriptive and inferential content of the study based on descriptive statistics of (frequencies, percentages and means). Statistical Package for Social Sciences soft ware was employed on determination for correlation analysis and regression analysis. The conclusion of the study was; strategic product innovation had a significant effect on sustainable competitive advantage of alcoholic beverage industry. This study recommended strengthening of strategic product practice in beverage industry to gain competitive advantage within its industrial production.

Key words: *Strategic Product, Strategic Innovations, Competitive Advantage*

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INTRODUCTION

The ability for organizations to innovate is considered to be the most important factor in supporting and developing competitive advantage (Ahu, 2015). According to Chen, Jiao & Zhao (2016), innovation is a necessary ingredient for sustained success and is an integral part of the business. Much weight has been accorded on building innovative institutions and the management of the innovation progression as necessary elements of institutional survival. The performance of the firm is one of the indicators that determine environmental accountability (productivity, waste reduction, regulatory compliance and cycle time) and standards of efficiency and effectiveness. Faruk and Gary (2015) argue that the resource-based theory postulates that competitive advantages lie in the specific resources owned by the organization in a heterogeneous setting; hence, the ability to innovate is increasingly viewed as the single most important factor in developing and sustaining competitive advantage. It is no longer adequate to do things better, it is about doing new and better things.

According to Ahu (2015) customer satisfaction, high performance in the organization and increased competitiveness with rivaling businesses are as a result of putting in place competitive strategies in an organization. Any organization which is willing to compete in competitive markets with dynamic technology must be ready and willing to innovate to make things happen. Unless the organization innovates, the risk of being overtaken by competitors is high. Hsiu (2017) stipulates, there comes at times when a business looks down on the challenges it faces in the competitive world. This happens mostly when rivals deal with challenges in the similar manner; hence, because most companies producing alcohol and beverages provide same services and products, they strive to look for competitive gap that will e aimed at attracting new customers, while t the same time retaining existing ones.

According to Bryan (2016), emphasis has been centered on coming up with organizations which are innovative and the management of this innovation process. These have proved to be the basic elements that make organizations to survive. Depending on the effects and nature of the change, competitive advantage can be radical; hence even transformational and more so incremental. Ahu (2015) suggests that innovations do not have to be breakthroughs or paradigm shifting; innovativeness refers to a willingness to support creativity and experimentation in introducing new products, becoming technological leaders, and developing new processes. The creation of new ideas and knowledge to aid the outcomes of the businesses is what defines innovation. The main reason as to why organizations create new ideas is the need to create market-driven products and services, and to improve internal business structures and processes.

Osuga (2016) writes that strategies are centered on positioning the products of the firms in the market. The strategies highlight how the organizations will compete their rivals in the market place and the value it will add to the customer's needs, putting in place that for the positioning to be effective, position of the competitors, strengths and weaknesses of the firm and the market needs should be put into consideration. According to Yunis, Abdul, Nasser & Abbas (2017) strategies comprise of those moves and approaches that a firm has to take and is undertaking to retain, attract customers withstanding competitive pressure, improved its market position and achieved competitive advantage from the way they organize and undertake their activities; hence, Saunila (2017) asserted strategies concern the organization's specific game plan for securing competitive advantage and competing successfully with rivaling firms through meeting the needs and preferences of the buyers and better performance. According to Yunis, Abdul, Nasser and Abbas (2017), as well as Osuga (2016), the scholars stipulate, Strategic product is about creation of new markets and leaps in customer value and reshaping the existing

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markets to achieve value improvements for customers. The main aim of strategic innovation is to achieve competitive advantage by creating value and new markets. There is however a bone of contention between the two extremes; creating customer value on existing markets or for new markets. Scholars agree that; strategic innovation is found at the re-definition of the business model of an organization; however, the question between the two extremes of strategic innovation lies therefore in how organizations redefine their business model and how organizations link the redefinition to the strategic literature. The year 2014 saw a decline in the sales of alcohol in the Kenyan market. This was occasioned by the sharp decline that was recorded in volume of sales of economy beer. The biggest category of alcoholic drinks in Kenya is beer. When a tax was imposed in October 6, 2013 on economy beer, the Kenyan market experienced a decline in volume sales as economy beer prices rose. Senator Lager, Kenya's economy leading brand saw a substantial volume sales decline during the period, affecting the overall volume sales.

EABL (2017) postulates that alcoholic drinks in Kenya are set to grow over the forecast period, with economic growth expected due to political stability and increased foreign investment in the country. It is hoped that increased business confidence in Kenya will promote higher disposable incomes and increased consumer spending on products that are not essential. Additionally, the youth in Kenya, whose number is growing very fast, will provide an opportunity for growth. The proliferation of restaurants, hotels and bars is finally also expected to increase the growth of alcohol consumption in Kenya during the forecast period. East African Breweries Limited has over the years controlled approximately over 50% of the Kenyan bottled alcohol market (EABL, 2019). Other players in this sector include Heineken, SAB Milller, Viva Product line, Panoricard, Sierra, Barcadi and Keroche Breweries Company Limited that is the closest competitor of East African Breweries Limited.

Statement of the Problem

Recent economic recess experienced in Kenya as a result of the unstable economical conditions, there is need to look at how innovative strategies can help improve such an economic recess. The starting point for coming up with a strategy is to understand the forces that shape the industry competition. Every company should be aware of the average profits they make, and how the profits have been changing over time. Kariuki (2014) emphasized strategic innovation requires a process of co-evolution between technology and cultural perspectives where radical innovations are new technologies or new products that fill needs perhaps yet unrecognized and incremental innovations improve what already exists. Aside from improving the mix of target markets, strategic product being one of the strategic innovations; is concerned with how the chosen markets can best be served (Mallen, 2015). In Kenya, the alcoholic beverage industry had rapidly been expanding and fierce competition was witnessed in the sector. Lilly and Juma (2014) stipulate, liberalization of the alcoholic beverage sector by the Kenyan government has seen many new entrants enter the market, challenging the already established players like East African Breweries Limited. In order to remain competitive; hence, the company has been forced to come up with new designs and achievable strategic plans, just like its competitors to have a stake in the lucrative market that has great potential of growth.

The increased level of competition has seen industries maintaining or grow their market share for them to remain relevant in the market. Competition has forced the organization to come up with new and effective business strategies in a bid to remain afloat in the market. As Kenyans get more educated, they demand for more quality products. This has seen East African Breweries Limited find itself in a competitive market, where customers demand for more value of their money. In as much as the alcoholic beverage industry showed some marked improvement, the recent economic recess that stemmed from political

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instabilities have affected the operations of most alcoholic beverage manufacturers. For example, East African Breweries Limited has been facing huge tax liabilities from the government and bottle rights fight with Keroche Breweries Company Limited. With the new economic challenges affecting the brewing industry, it was important to look at the effect of strategic product innovation on sustainable competitive advantage of alcoholic beverage industry.

Objective of the Study

The study examined the effect of strategic product innovation on sustainable competitive advantage of alcoholic beverage industry in Kenya**.** The study was guided by the following research Hypothesis.

- H_{01}: Strategic product innovation does not have a significant effect on sustainable competitive advantage of alcoholic beverage industry.

LITERATURE REVIEW

Resource Based Theory

This theory emphasizes that a firm puts into use its capabilities and resources to create a competitive advantage that results into creating a superior value chain. It draws attention to the firm's internal environment as a driver for competitive advantage. Barney (1991) suggests that a firm's resources must be imperfectly imitable, valuable, rare and non-substitutable. This makes it to be a source of a sustained competitive advantage. He argued that only resources that are useful and strategically important should be considered as sources of competitive advantage. According to the Resource Based View (RBV), the basis for the competitive advantage of a firm lies in the application of valuable tangible or intangible resources at the firm's disposal.

Resources that are diverse in nature are the ones needed for transforming a short run competitive advantage to a sustainable competitive advantage. According to Hoopes, Madsen and Walker (2003), resources need to be rare to be able to function as a possible source of a sustained competitive advantage. Hitt *et al.,* (1997) argues that organizations create a healthy competitive advantage every time customers consistently perceive positive differences such as cost competitiveness, quality and uniqueness value between the products and services offered by both the company and its competitors. It has been argued that RBV only focuses on internal resources, while ignoring the nature of the market demand (Hooley et al. 1996). The ability of a firm to make profits and be successful depends on its attractiveness, its location and whether it has competitive advantage over its competitors. For firms to sustain competitive advantage in the face of dynamic changes and competition there is need for them to constantly develop their resource basis.

Healthy competitive advantage not only helps the organization to achieve its strategic goals, but has a reasonable lasting effect. In order for competitive advantage to be sustainable, it needs to be embedded in the organization resources, culture, skills and investment over a period of time (Porter, 1998). Managers are tasked with making an overall assessment of the organization resource base and come up with viable strategic decisions that will enable the company to survive competition from its competitors.

Knowledge Based View

This theory considers knowledge as the most strategically important resource of an organization. According to Matusik and Hill, (1998), the relationship between organizational knowledge and the firm's competitive advantage is influenced by its capacity to integrate and apply knowledge. This knowledge is transmitted through various aspects including organizational culture and beliefs, employees, policies and documents. According to Zack (2002), "the sustainability of the knowledge-based competitive advantage depends on knowing better certain aspects than the competitors, along with the time limitations competitors have to acquire similar knowledge despite the amount of money they are willing to invest to achieve it. Organizational learning plays a pivotal role in sustainability of the competitive advantage knowledge-based view of the firm. The role of human capital in the global knowledge-based competition has become extremely essential. Individuals are now owners and controllers of knowledge, as opposed to sometimes back when they were mere elements of a system of production. Although the resource-based view of a firm recognizes the important role of knowledge in firms that achieve sustainable competitiveness, it treats knowledge as a generic resource rather than one with special characteristics.

Dynamic Capability Theory

This theory defines dynamic capability in organizational theory as the ability of an organization to fully adapt to changes that have an impact on its functioning. Teece *et al.,* (1997) defines dynamic capability as the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. He further adds that the term dynamic refers to the capacity to renew competences in order to achieve congruence with the ever-changing business environment. It is the capacities and capabilities that lead to superior sustained performances because of the fact that they are specific to each organization, non-substitutable, valuable to the clients and hard to imitate. Porter (1985) argues that the basis of gaining a sustainable competitive edge is on competencies and capabilities critical to market success and satisfying customers. The Dynamic Capability Theory gives the managers a wide range of options on how they can change their old models in order to adapt to the changes in the environment. The term capability emphasizes the key role of strategic management in appropriately adapting and integrating both the internal and external organizational skills.

Review of study variables:

Strategic Product Innovation and Sustainable Competitive Advantage

Companies mainly seek to achieve a sustainable competitive advantage against their rivals through the creation of new products (Wong, 2014). The innovation products vary in their degree of newness in the market in which they are introduced. These range from marginally new, which are modifications of older versions of a product, to the extremely new which are disruptive and can create a whole new market. Marketing innovation is the implementation of new methods of marketing in order to satisfy the consumers' wants and need (Rukmana, 2014). This is achieved through significant modifications in the product design, packaging placement, promotion and pricing. The common misconception by organizations is that superior product performance will always lead to commercial success but this is not true since they are other variables, which determine the commercial viability of a product (Shu, Wang, Gao & Liu, 2015).

Product innovation is a instrument used by firms to attain a long-term edge against their competition in acquiring market share in their respective industries (Saunila, 2017). The increased market share is a reflection of the sustainable competitive advantage created by the innovated product and this protects the organizations market share from products created and launched by rival companies (Osuga, 2016). Amajor product innovation can indeed alter the structure and long-term strategies of an organization creating a completely new business. Competition in industries influenced by product innovations is mainly driven by technology (McKinsey & Company, 2013).

Product Innovation comes with high risk of failure and high costs this result in the depletion of the companies' resources due to the trial and error nature of experimentation (Kariuki, 2014). The business environment is highly uncertain and this uncertainty has resulted to product life cycles being shorter. The organizations must produce new sophisticated products in increasingly fast cycles in order to succeed in the business environment and recoup development investments (Osuga, 2016). The time required for the development of a successful product varies across different product types, this makes the return on investment highly uncertain and therefore the organization is at risk of losing money if it doesn't properly conduct its research properly with regards to its product development department (Rukmana, 2014).

Nelson and Rosenberg (1993) had the idea of innovation as the process by which firms put in practice projects of the products and manufacturing processes which are new for them; hence, it is the economic and financial result of the introduction of a new technology in an organization environment, aiming for the organization to growth. A firm is considered innovative when it offers goods and services which did not exist previously, using a new organizational method (unused previously) which aids in the production of a new product (nonexistent in the market by then) (Pelegrin & Antunes, 2013).

Empirical Review

Kanagal (2015) conducted an empirical study in Bangalore, India on product innovation; and draw implications for marketing strategists. The methodology used was an empirical desk research on innovation aspects of Philips Corporation followed by a primary interview with Philips Innovation Campus, Bangalore, India. The variables concerned were the nature of innovation; elements of innovation process system; variations of innovations of products; aspects of assessment of innovation. The findings of the study validated Christensen's (1995) work that innovations use assets and competencies of the organization along with innovation processes to bring about new or different market offerings, which when successful in the market bring in immense value to the firm and give the firm an edge over its rivals (Kangal, 2015).

Sinee (2001) did a study is to analyze the Marketing Strategy Competition among companies dealing with domestic and imported beers before Liquor Liberalization in Thailand. It adopted a case study analysis of companies. The results of the study showed that Thai Beer Company used the price and channel strategy, brand building strategy, SWOT analysis strategy, heavy advertising strategy, selling point building strategy, and proactive strategy. Imported beer companies conducted trade promotion strategy, advertising strategy and brand strategies.

Wangechi (2005) examined strategic planning at East African Breweries Limited. The objective of the study was to investigate and document the strategic planning system at East African Breweries Limited. This was done through an interview guide. The findings concluded that East African Breweries Limited has put in place a strategic planning system that is unique to its context and that the marketing tool plays a great role in Strategic Planning. Strategic planning at EABL is not without its complications and challenges. This is due to the complex nature, size, different environments and multiple businesses that pose problems during strategic formulation and implementation stages. To deal with these challenges effectively there needs to be strategies in place to enhance growth and sustainable competitiveness.

METHODOLOGY

Descriptive research survey design was therefore used to determine an association between the independent and dependent variable. In this research study, the population encompassed senior staff members from the Sales, Marketing, Production, Finance, and IT departments. 274 senior staff from these departments at East African Breweries Limited was used. The sampling frame was derived from the Sales, Marketing, Production, Finance, and IT departments of East African Breweries Limited. Primary data was collected by means of self-administered questionnaires. The questionnaires had structured questions. These questionnaires were structured and designed in multiple choice formats. Data collected from the field was coded, cleaned, tabulated and analyzed using both descriptive and inferential statistics with the aid of specialized Statistical Package for Social Sciences (SPSS) version 24 software. Descriptive statistics such as frequencies and percentages as well as measures of central tendency (means) and dispersion (standard deviation) was used. Data was

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also organized into graphs and tables for easy reference. Further, inferential statistics such as regression and correlation analyses was used to determine both the nature and the strength of the relationship between the dependent and independent variables. Correlation analysis is usually used together with regression analysis to measure how well the regression line explains the variation of the dependent variable. The linear and multiple regression plus correlation analyses were based on the association between two (or more) variables. SPSS version 24 is the analysis computer software that was used to compute statistical data. Study conceptualized Regression Model;

$Y = \beta_0+\beta_1X_1 + \varepsilon$

Y = Sustainable Competitive Advantage

β_0 = Constant

X_1= Strategic Product Innovation

$\{\beta_1\}$ = Beta coefficients

ε = the error term

FINDINGS AND DISCUSSIONS

The study involved 71 questionnaires being dispatched for data collection, 60 questionnaires were returned completely filled, representing a response rate of 85% which was good for generalizability of the research findings to a wider population.

Descriptive statistics: Respondents were asked to state how they perceived the effect of strategic product innovation on sustainable competitive advantage of alcoholic beverage industry. Majority of the respondents (67.30%) agreed that East African Breweries Limited had produced new beer in the recent past, 64.60% agreed that the company had produced new spirits in the recent past, further, 70.00% of the respondents agreed that the Company had recently improved on its beer flavours. Further, the results revealed that 81.40% agreed that the company had recently improved on its spirits flavours. The results also revealed that 69.20% agreed that the Company had recently improved on the quality of its beer. In addition, the results revealed that 76.80% agreed that East African Breweries Limited had recently improved on the quality of its spirits.

Inferential Statistics;

Correlation of Strategic Product innovation on Sustainable Competitive Advantage

There was a positive and a significant association between strategic product innovation and sustainable competitive advantage (r=0.317, p=0.000).

Regression Analysis

The results presented in table 1 presented the fitness of model used of the regression model in explaining the study phenomena. Strategic product innovation was found to be satisfactory variable in explaining sustainable competitive advantage. This is supported by coefficient of determination also known as the R square of 10.1%. This means that strategic product innovation explains 10.1% of the variations in the dependent variable which is sustainable competitive advantage.

Table 1: Model Fitness

Variables	Values
R	0.317
R Square	0.101
Adjusted R Square	0.094
Std. Error of the Estimate	0.513

Analysis of Variance

	Sum of Squares	**Df**	**Mean Square**	**F**	**Sig.**
Regression	4.178	1	4.178	15.906	0.000
Residual	37.299	143	0.263		
Total	41.478	144			

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Table 1 provided the results on the analysis of the variance (ANOVA). The results indicated that the overall model was statistically significant. Further, the results implied that the independent variable is a good predictor of revenue optimization. This was supported by an F statistic of 15.906 and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level. Regression of coefficient results was presented in Table 2.

Table 2: Regression of Coefficients

	B	Std. Error	T	Sig.
(Constant)	1.597	0.455	3.509	0.001
Strategic product innovation	0.468	0.117	3.988	0.000

Regression of coefficients showed that strategic product innovation and sustainable competitive advantage had a positive and significant relationship (r=0.468, p=0.000). These results support Kangal (2015), who found a positive relationship between Strategic product innovation and sustainable competitive advantage.

$Y = 1.597 + 0.468X_1$

From the regression equation when strategic product innovation changes by 0.468% the competitive advantage change by 1% showing there is a positive relation between the two variables.

CONCLUSIONS AND RECOMMENDATIONS

The objective of the study was to establish the effect of strategic product innovation on sustainable competitive advantage of alcoholic beverage industry. From the findings, strategic product innovation affects sustainable competitive advantage of alcoholic beverage industry. The respondents felt that East African Breweries Limited produces high quality products.

From the study findings, it was concluded that strategic product innovation has a positive effect on sustainable competitive advantage. The use of innovative strategies by East African Breweries Limited had played a great role in ensuring sustainable competitiveness in the Alcohol and Beverage industry. East African Breweries Limited had both a good theoretical and practical understanding of the innovative strategies necessary to ensure it remains dominant in its industry. Therefore, new products are introduced to the market to acquire new customers whereas old products are modified from time to time in order to retain their customer base by adjusting to their newly developed needs and compete favorably in the market hence sustaining its competitive edge.

The study recommended that local and global economy is in constant flux which is driven by both environmental and technological advancements and developments which directly influence both the social and political climate. The future outlook for East African Breweries Company Limited is very positive since it's still a market leader in the Alcohol and Beverage industry in Kenya. The recommendation for this was that East African Breweries Limited should invest more in studying their target customers and emerging trends in order to tailor their products to the wants and need of their customers. They must also ensure that they maintain a ready pipeline of products to be launched in order to stay steps ahead of their rivals in meeting customer demands .

Areas for Further Research

The researcher recommended that a similar study be done with regards to other forms of innovation since the study only focused on four dimensions of innovation, that is, strategic product innovation. Therefore, further research must be done on other types of innovation like organizational innovation on sustainable competitive advantage.

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