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Influence Of Generic Strategies On Customer Retention Of Aviation Industry In Kenya

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***Abstract:** The study was aimed to ascertain the influence of generic strategies on customer retention in the aviation industry of Kenya. The specific objectives of this study were: To establish the influence of cost leadership strategy on customer retention, to find out the influence of differentiation strategy on customer retention and to assess the influence of focus strategy on customer retention. The study covered 235 respondents drawn from a population of 737. The respondents were randomly selected from local passengers of Kenya Airways, Safarilink, Jambo Jet, Fly 540 and Fly Sax in Kenya. It relied on data collected using a pretested online questionnaire, structured to meet the objectives of the study and the data was analyzed using inferential statistics by means of Statistical Package for Social Sciences version 23. The study adopted a descriptive study design using cronbach's alpha, regression and coefficient variation to analyze data. The results indicate a P-value of 0.000, which is less than 0.005 against all the study variables. This denoted that cost leadership strategy, differentiation strategy and focus strategy had a significant effect on customer retention of the selected airlines in Kenya. It revealed a positive correlation between customer retention and cost leadership with a correlation coefficient of 1.009, a positive correlation between customer retention and differentiation a correlation coefficient of 0.991 and a positive correlation between customer retention and focus with a correlation coefficient of 1.003. The study concluded that Jambo jet leads in customer retention at 69% using cost leadership strategy, however can further improve its retention by adopting additional differentiation strategies like class of travel for premium customers. Kenya airways leverages differentiation strategy offering high quality products supported by good services at premium prices at a customer retention level of 53%, Fly 540 is stuck in the middle of the strategies with customer retention of 43%, Safarilink and Fly Sax lag behind with 38% and 23% respectively. The study recommends that the airlines should leverage a combination matrix of cost leadership, differentiation and focus strategy to ensure customer retention. Cost leadership strategy because it enables a company to improve its efficiency by focusing their investments on what the customer values and is willing to pay for, they should differentiate to creates customer value by offering high quality products at premium prices and all the above should be implemented using a focus strategy for different destinations, classes of travel or flight timing.*

***Keywords:** Customer Retention, Generic Strategies, Cost Leadership Strategy, Differentiation Strategy, Focus Strategy and Perceived Value*

I. INTRODUCTION AND BACKGROUND

The global aviation industry facilitates economic growth, world trade, international investment and tourism. It is one of the major economic drivers for prosperity, development and employment in any country. In 2015, the world's airlines safely transported 3.5 billion people and 51 million metric tons of cargo. The industry supports the livelihoods of 63 million people and underpins $2.7 trillion of GDP (IATA, 2016). Airlines' inventory is comprised only of the seats that it has on each flight, so this perishability of its services makes the industry very vulnerable to external crisis These demands are stimulated by the changes of customers' lifestyle, needs and expectations for greater experience in traveling. Africa is the second largest and second most populated continent and but accounts for about 3% of the world's air traffic, as most of its air traffic is being carried out by foreign airlines. It is set to be one of the fastest growing aviation regions over the next 20 years, with annual expansion averaging nearly 5% (IATA, 2016). This opens up incredible economic opportunities for the continent's 54 nations.

II. PROBLEM FOCUS AND PURPOSE

Passenger traffic in Kenya has grown by 11% to hit 10 million (KAA, 2017). Competition in Kenya's aviation market is set to increase with the airlines radically adopting generic strategies i.e. Low cost leadership, Differentiation and Focus, in order to improve their performance (Omwoyo, 2016). Reichheld (2014) customer loyalty drives top-line growth; because loyalty is so important to profitable growth, measuring and managing is important. Kotler (2010) argues that there are too many different kinds of customers with too many different kinds of needs. The growth and maintenance of loyal customers is a key factor for future success of the companies. Airlines have employed a narrowly focused near-term strategy, including reduction in seat capacity and product unbundling, which could potentially have long term consequences on customer loyalty, experience and profitability from core product. The various adopted competitive generic strategies may have a negative or positive influence on the customer causing them to move from one airline to another.

RESEARCH QUESTIONS

The following questions guided the inquiry for this paper;

- ✓ How does cost leadership strategy influence customer retention?
- ✓ How does differentiation strategy influence customer retention?
- ✓ How does focus strategy influence customer retention?

III. THEORETICAL FOUNDATIONS AND LITERATURE REVIEW

The research is founded on the following theories

CONVERSION MODEL THEORY

Richards (1996) provided a conversion model based on the fact that it is not enough to satisfy a customer as satisfaction alone does not predict customer behavior. A customer's commitment level can therefore be recorded as an indicator of changes in behavior. The CM theory initially emanated from three sources, namely cognitive and social psychology, catastrophe theory and religious conversion. Cognitive and social psychology theory serve as the basic foundation for the assumptions about the customers' consumption decision-making behavior. Richards (1996) argues that satisfied customers will leave, dissatisfied customers will remain and therefore, rather than discussing customer satisfaction, firm should discuss customer commitment. Payne (2006) also agrees that customer satisfaction helps to make customers committed, however, the building of committed customers involves more than merely satisfying them. In building his model, Richards (1996) identified three factors as drivers of commitment. These are level of involvement, attraction of alternatives and the extent of ambivalence.

RELATIONSHIP COMMITMENT MODEL

Morgan and Hunt (1994), define commitment as the dimension of relationship that addresses a buyer's willingness to maintain a relationship with a seller. More specifically, commitment can be viewed as a specific psychological state that leads an individual to invest resources to maintain a relationship, as a consumer's desire to continue a relationship and willingness to make efforts at maintaining the relationship with a firm. Sharma and Patterson (2000) provide a model showing the determinants of relationship commitment. The model consists of three factors, namely communication effectiveness, technical quality and functional quality, all affected by trust in the relationship which in turn affect relationship commitment. According to Crosby et al., (1990), trust implies reliance on or confidence in, the process or person. Sharma and Patterson (2000) also defined trust as the belief that the services provider can be relied on to behave in such a way that the long- term interests of the buyer will be served.

THREE-DIMENSIONAL MODEL OF CUSTOMER COMMITMENT

A three-dimensional customer commitment model was proposed by Meyer and Herscovitch (2001), including affective commitment (desire-based), calculative or continuance (cost-based), and normative commitment (obligation-based. This model investigates relations among commitment dimensions and impacts on customer intentions to stay (ITS), Positive word of mouth (PWOM), and willingness to pay more (WTP). The rational for the selection is based on the commitment concept being investigated as a major concept in the studies of consumer-firm relationship. Affective commitment reflects the emotional attachment to the commitment object. It is the force that binds customers out of desire, customers' liking and positive feelings toward the company (Fullerton, 2003); the affective commitment is developed through a number of factors such as increase of customer satisfaction and trust (Bansal et al., 2004). A number of studies addressed the effect of affective commitment on performance measurements. Evidence of positive effects of switching intention acceptance of price increases, and advocacy intention has been found in different industries (Fullerton 2005). Johnson et al. (2001) found positive effects of affective commitment on retention and referrals in different research setting such as airlines, banks, service stations, and train transportation.

EMPIRICAL LITERATURE REVIEW

The cost leadership strategy is a joined course of action to deliver products or services with parts that are satisfactory to customers at an affordable cost, in regard to that of competitors (Ireland et al., 2011). Cost-leadership strategy strives to supply a standard, no-frills, high-volume product at the most competitive price to customers (Li & Li, 2008). The upper hand of cost leadership is accomplished by performing vital esteem chain activities at lower cost than contenders (Bansal, 2008). According to Barney & Hesterley (2006), few layers in the reporting structure, simple reporting relationships, small corporate staff, and focus on narrow range of business functions are elements of organizational structure that allow firms to "realize the full potential of cost leadership strategies". A differentiation strategy is to create value to customers by providing superior quality, innovative products, brand image, and good services. This will differentiate the product which means the product will be more competitive than others (Hutchinson et al. 2007). Differentiation strategies are based on providing buyers with something that is different or unique, that makes the company's product or service distinct from that of its rivals (Kotler & Keller, 2012). Focus strategies, according to Allen and Helms (2009), are assigned to help a firm target a specific niche within an industry. These niches could be a particular buyer group, a narrow segment of a given product line, a geographic or regional market, or a niche with distinctive, special tastes and preference. The whole strategy is built around serving a special target in a way that exceeds customer's expectations thus enabling an organization enhance customer satisfaction & Retention (Cohen et al., 2006)

IV. METHODOLOGY AND RESEARCH DESIGN

Descriptive survey was adopted on the population of the study comprising passengers of the top five airlines in Kenya; Kenya Airways, Safarilink, Jambo Jet, Fly 540 and Fly Sax. An online questionnaire was used on 384 local airline customers in Kenya. Qualitative data collected was analyzed using descriptive statistics including mean and standard deviation with the help of Statistical Package for Social Sciences (SPSS) Version 23. The study performed linear regression to show the relationship between the independent variables (X) and the dependent variable (Y). The magnitude and direction of that relation was given by the slope parameter ($\beta 1$), and the status of the dependent variable when the independent variable is absent was given by the intercept parameter ($\beta 0$). An error term (**ε**) captures the amount of variation not predicted by the slope and intercept terms.

V. FINDINGS AND DISCUSSIONS

235 of the respondents filled their responses, which translated to 61% response rate. 32% were of age group 20 to 30 years and 50% were of age group 30 to 40 years while 18% were above 40 years. The results revealed that Jambo jet had the highest number of passengers 28%, Kenya airways had 26%, and Fly 540 had 23%. Fly sax and Safarilink had 13% and 11% respectively. 42 % of the respondents were female and 58% male. The majority of passengers had flown more than 3 times 70%, followed by once or twice 20% and three times 10%. The most frequently used local airline was Jambo Jet with 30%, followed by Kenya airways at 24%, then Fly540 with 18% and followed by Safarilink and FlySax with 14% and 13% respectively. Considering Jambo jet has the highest number of most frequent customers, it implies that it experiences the highest level of customer retention.

Kenya airways has 24% level of customer retention, its passengers seem to be long term however they have been reducing in number in the past few months. Fly 540 has 18%, Safarilink 14% while Fly Sax is trailing at 13%. Kenya airways had the highest level of very satisfied customers at 36%, followed by Jambo jet with 24%, then Fly 540 at 20%, Fly Sax and Safarilink trail with 12% and 8% respectively.

The mean for cost leadership strategy and customer retention ranged from 3.10 to 4.44. The findings of the study mean that the local airline passengers are sensitive to cost of ticket and airline services. The passengers are more concerned on whether the meals are charged and less concerned about a return policy. The standard deviation for cost leadership strategy and customer retention ranged between 1.3983 and 0.4972. This depicts that passengers have a general concern for what and how much they are charged. The alpha coefficient for the seven questions was .963. The R Square of the model was 0.959. The ANNOVA produced significant F-statistic ratio of 755.107 and a P-Value of 0.000. The study concluded that there is a significant relationship between cost leadership strategy and customer retention in the aviation industry.

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.476	.219		2.172	.031
	Cost Leadership Strategy	.905	.359	1.009	18.981	.000

a. Dependent Variable: Customer Retention

Customer Retention = 0.905 + 1.009 Cost Leadership Strategy + ε

Table 1: Coefficient Variation of Cost Leadership Strategy and Customer Retention

The mean for differentiation strategy and customer retention ranged from 2.43 to 4.62. Depicting that passengers are less concerned about availability of shuttles and most concerned about the punctuality of the flight and ground services. The results also show a standard deviation between 1.3735 and 0.4958. This means that there was high deviation among the passengers concerned of the passengers on implemented differentiation strategies by the local airlines. This shows that passengers are moderately concerned of whether the airline operates new planes.

The alpha coefficient for the twelve questions was .985. The R Square result of 0.949.

The ANNOVA gave a P-Value of 0.000. The study concludes that there is a significant relationship between differentiation strategy and customer retention in the aviation industry in Kenya.

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.042	.351		2.968	.001
	Differentiation Strategy	.793	.752	.991	15.821	.000

Customer Retention = 0.793 + 0.991 Differentiation Strategy + ε

Table 2: Coefficient Variation of Differentiation Strategy and Customer Retention

The mean for focus strategy and customer retention ranged from 3.72 to 4.49. This reveals that passengers do not consider the location of the airlines airport as much as they do the flight schedule. The results also show a standard deviation between 1.2115 and 0.5159. This means that there was high deviation among the passengers concerned about personalized advertising.

The alpha coefficient for the five questions is .912. The R Square result of 0.928

The ANNOVA gave a P-Value of 0.000.

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.765	.176		4.342	.001
	Focus Strategy	.849	.221	1.003	22.373	.008

Customer Retention = 0.849 + 1.003 focus Strategy + ε

Table 3: Coefficient Variation of Focus Strategy and Customer Retention

VI. REGRESSION ANALYSIS RESULTS

The study concluded that there is a significant relationship between cost leadership strategy and customer retention in the aviation industry with an F-statistic ratio of 755.107 and a P-Value of 0.000.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	214.817	7	30.688	755.107	.000b
	Residual	9.225	227	.041		
	Total	224.043	234			

a. Dependent Variable: Customer Retention
b. Predictors: (Constant), Cost Leadership Strategy

Table 4: ANOVA of Cost Leadership Strategy and Customer Retention

The study concluded that there is a significant relationship between differentiation strategy and customer retention in the aviation industry in Kenya.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	245.035	12	20.420	342.225	.000b
	Residual	13.246	222	.060		
	Total	258.281	234			

a. Dependent Variable: Customer Retention
b. Predictors: (Constant), Differentiation Strategy

Table 5: ANOVA of Differentiation Strategy and Customer Retention

The study concluded that there is a significant relationship between focus strategy and customer retention in the aviation industry in Kenya.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	110.000	5	22.000	593.735	.000b
	Residual	8.485	229	.037		
	Total	118.485	234			

a. Dependent Variable: Customer Retention
b. Predictors: (Constant), Focus Strategy

Table 6: ANOVA of Focus Strategy and Customer Retention

It revealed a positive correlation between customer retention and cost leadership of 1.009, customer retention and differentiation of 0.991 and customer retention and focus of 1.003.

VII. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The five airlines appear to be successfully following one or more of the three generic strategies in different routes, airports and different times. This has not ensured customer retention for either of them at all times. Jambo jet gets all of the price sensitive passengers, Kenya airways gets all premium customers, Fly 540 get a mix of both price sensitive & service quality passengers, Safarilink and Fly Sax get what is left.

The local airlines must ensure a close to perfect mix of cost leadership, differentiation and focus strategies to ensure customer retention. Moreover, attributes like punctuality, quality of service personnel, reputation, strong brand image and modern service plays an important role in achieving customer's satisfaction and recommendation.

FUTURE RESEARCH DIRECTIONS

The study has only evaluated the aviation industry. Further researches on the influence of generic strategies on the customer retention should also be carried on in other industries like, banking, telecommunication, technology, health care and insurance. A replication of this study should be carried out in other countries or among international airline passengers. A more detailed study on the effect of one of the generic strategies, either cost leadership strategy or differentiation strategy or focus strategy on customer retention in aviation industry should be conducted.

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