

## Product Differentiation Strategy and Performance of Cement Manufacturing Companies in Kenya

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### Abstract

Over the past decade, Kenya's cement manufacturing firms have experienced fluctuating performance, even as demand from the construction and infrastructure sectors has continued to expand. These inconsistencies have raised concerns about the industry's competitiveness and long-term sustainability. This study examined how product differentiation strategy influences the performance of cement manufacturing companies in Kenya. Anchored on the Dynamic Capabilities Theory, the research applied a descriptive survey design. The target population consisted of 375 employees drawn from selected cement manufacturers, from which a sample of 112 respondents, representing 30%, was obtained. Questionnaires served as the primary tool for data collection. Analysis involved generating descriptive statistics and conducting correlation tests. Findings revealed that product differentiation is positively and significantly associated with firm performance ( $r = 0.672$ ,  $p = 0.000$ ). The study concludes that strengthening product differentiation efforts enhances operational competitiveness and customer preference. It recommends that management prioritize continuous refinement of product features and quality initiatives informed by customer feedback to reinforce market positioning.

**Keywords:** *Product Differentiation Strategy, Performance, Cement Manufacturing Companies, Kenya*

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### 1. Introduction

Cement manufacturers operate in an increasingly demanding business environment where competitive survival depends greatly on how effectively firms distinguish their products from those of industry rivals. As noted by Xhavit, Naim, and Marija (2020), organizations enhance their performance by strategically integrating internal capabilities with external market conditions to build unique offerings that customers value. Differentiation may arise from improving product features, enhancing customer relationships, or strengthening inter-firm linkages such as distribution arrangements. Firms that manage these elements well tend to earn stronger brand loyalty, enjoy pricing advantages, and defend their market position more effectively.

Globally, the cement sector comprises more than 1,000 producers operating over 2,300 integrated plants, with growth trajectories shaped by economic performance, housing demand,

infrastructure investments, and evolving environmental standards. China leads global output at 57 percent, followed by India, Vietnam, the United States, and Indonesia (Edwards, 2020). Major multinational companies, including LafargeHolcim, Taiwan Cement Corporation, Votorantim Cimentos, China National Building Materials, Heidelberg Cement, and Cemex, continue to dominate production. However, international performance has recently been affected by trade tensions, fluctuating capital flows, and the economic disruptions triggered by the COVID-19 pandemic.

Within the regional context, firms such as LafargeHolcim, Dangote Cement, Raysut Cement, Titan Cement, and the Heidelberg Group have considerable influence across East and West Africa. Market expansion has been supported by large-scale infrastructure development, partly financed through Public–Private Partnerships, which have increased cement consumption across the region (Market Research Report, 2018). At the same time, mergers, acquisitions, and cross-border investments, such as Raysut Cement’s entry strategy into Kenya, illustrate the growing importance of strategic positioning through differentiated products and brand identities.

In Kenya, cement manufacturers have faced persistent performance pressures from intensified competition, rising imports, high production costs, and fluctuating demand patterns. Production volumes fell by 3 percent between 2018 and 2019, from 6,000 to 5,000 tonnes (KNBS, 2020), while imports continued to increase, further squeezing local firms. Established producers such as Bamburi Cement, Mombasa Cement, EAPCC, National Cement, Savannah Cement, and ARM have responded differently to these pressures, with some issuing profit warnings or undertaking restructuring measures. These developments underscore the need for firms to strengthen their product differentiation strategies to remain competitive and improve market performance.

Cement production in Kenya is also shaped by high entry barriers, such as stringent environmental regulations, labor legislation, and mining license requirements, which limit the number of active players. Additionally, cross-shareholding among dominant firms has historically influenced market dynamics, as seen in Lafarge’s ownership stakes in Bamburi and EAPCC (Ogutu, 2012). Despite these structural constraints, the market remains highly competitive, with relatively stable retail prices driven largely by brand rivalry and product positioning (Lugaria, 2018). In this environment, product differentiation, through quality enhancements, strength classifications, durability features, packaging innovations, and brand messaging, has become a critical strategic tool for improving firm performance and securing customer preference.

### **1.1 Problem Statement**

Kenya’s cement industry has, for many years, been supported by large public infrastructure investments such as roads, railways, and county-level construction projects. Despite this, recent trends paint a concerning picture. Cement consumption, which had previously increased by 2.8% from 5.8 million tonnes in 2017 to 5.9 million tonnes in 2018, dropped by 3% to 1.46 million tonnes from 1.50 million tonnes. KNBS (2019) further reports that cement production declined by 6% in the first quarter of 2019, falling to 1.46 million tonnes from 1.55 million tonnes during the same period in 2018. At the same time, imported cement surged by nearly 50% to 23,000 tonnes, while exports fell sharply by 63% to 0.14 million tonnes due to reduced regional demand. These shifts underscore significant structural challenges that may have weakened local firms’ competitiveness.

Although the construction sector continues to expand, local cement manufacturers have not mirrored this growth in their financial performance. From 2016 to 2019, all listed cement companies recorded declining operating profits, with several reporting sustained losses. Bamburi Cement issued consecutive profit warnings in 2018, citing a contracting market, while ARM Cement was placed under administration after heavy debt accumulation. EAPCC also warned the public of deteriorating performance in 2018, reporting a widening loss of 30.7 percent. Even though EAPCC posted a technical profit that year, this was mainly attributed to an 11-billion-shilling fair value gain on investment property, which concealed a 3.5-billion-shilling operational loss. These indicators point to deeper performance problems that may be linked to weak competitive positioning within the domestic market.

Competition has intensified as cheaper cement from China, Pakistan, and India continues to enter the Kenyan market, often raising concerns about quality and threatening the viability of local producers. Meanwhile, new entrants such as Mombasa Cement have quickly gained market share, rising to 20% and displacing long-established firms such as EAPCC, whose share now stands at 15.7%. The struggle for market dominance in a price-sensitive environment suggests that Kenyan cement firms may not be leveraging product differentiation strategically enough to create defensible market positions, build strong brand identities, or counter growing import pressure.

Several related studies highlight persistent gaps in understanding how differentiation influences firm performance within the cement industry. For instance, Amutha and Vinayak (2015) examined brand preference in India but did not explore how customers evaluate product quality as a differentiation measure. Anyim (2021) focused on service differentiation in Nairobi's private hospitals, limiting the findings to the health sector, while Githumbi (2017) studied differentiation in the rice industry, examining only three differentiation strategies. Other studies, such as Mbogori, Gichohi, and Moguche (2018), emphasized innovation rather than differentiation in cement firms, whereas Njue and Waithaka (2018) explored differentiation in Saccos, a completely different sector. Collectively, these studies reveal that research on how product differentiation strategies affect the performance of cement manufacturers in Kenya remains limited. This study, therefore, sought to address this gap by examining how product differentiation strategies influence the performance of cement manufacturing companies in Kenya.

## **2. Literature Review**

### **2.1 Theoretical review**

The research focused on the dynamic capability theory. Dynamic Capabilities are actions that enable a company to adapt its blueprint and assets to achieve superior performance in a rapidly changing environment. Therefore, they are scheme patterns through which an organization obtains fresh asset designs as markets change (Eisenhardt & Martin, 2000). It is a theory that emphasizes the use of internal factors to outsmart rival companies. It focuses on understanding organizational survival and growth, and its existence is to address the shortcomings of the RBV perspective.

The RBV perspective was unable to explain how a company could get superior performance in the ever-changing business environment (Bleady, Ali & Ibrahim, 2018). Dynamic capabilities have a paramount effect on an organization's profitability (Henderson & Cockburn, 1994). Knowledge gathered by an organization from external sources about process innovation creates a close link between productivity and the company's achievements. Due to turbulent

business conditions, companies are forced to gather knowledge to introduce new products and services that can help them compete with competitors. Practicing process innovation helps cut costs and increase production volumes, and, in the end, organizational financial performance improves. Successful product differentiation strategies in a rapidly changing business environment, where the industry is increasingly competitive and new technology is introduced each day, lead to high organizational performance.

## 2.2 Empirical Review

Product differentiation leads to high-quality products. In pursuit of these high-quality products, high production costs are incurred, which leads to products being sold at a higher price (Saunders, Lewis & Thornhill, 2019). When consumers become loyal to product quality, they tend to buy in bulk, thereby reducing production costs per unit as sales increase. Quality can be defined both internally and externally. Externally, quality is expressed by the customer's view of the product in terms of performance, reliability, and durability, while internally, quality is reflected in confirmation of specifications or requirements, or in a low failure rate (Maria, 2016).

Product design is achieved when companies incorporate consumers' requirements, such as functionality, use, and technical specifications. Product design is a combination of strategic, marketing, and technical aspects. A good design differentiates the products from their competitors, creates customer loyalty, and superior performance (Ahmad et al., 2018). Product innovation should be continuous for the organization to outcompete its competitors. Product innovation emphasizes product quality improvements for the benefit of consumers. Innovation can be in the form of techniques, equipment, and software.

Maria (2016) researched on the influence of product differentiation strategy on operational performance of SMEs in Indonesia. A survey was conducted with 75 correspondents, and sampling was done using stratified random sampling. Findings indicated that product differentiation affected SMEs' operational performance in a discordant manner: in the initial stages of implementing product differentiation, product costs were high, but as new customers came in, production costs decreased as sales increased.

An investigation by Dirisu, Iyiola and Ibidunni (2013), regarding product differentiation and organizational performance, it was disclosed that there was a link between product transformation and sales extensions within the organization, thereby indicating a notable productive bond between product differentiation and organizational performance. A survey research design was applied to 323 respondents. This study used only the resource-based theory.

Adimo (2018b) examined the influence of product differentiation strategies and organizational performance in Sameer Africa Kenya Limited. The research design adopted was a correlational study with 134 respondents in the sample, and the data were analyzed using descriptive statistics. A conclusion was reached that product differentiation attributes pertinent to competition are required to satisfy various customers and, ultimately, to enhance organizational performance. The study was limited to the strategic balance theory.

Nolega, Oloko and Oteki (2015) assessed how product differentiation influences a firm's performance was carried out using Kenya Seed as a case study. Observational research was conducted with 140 respondents, and descriptive analysis was used to examine the data. A recommendation was made that the firm should expand its seed variety to suit different soils

and climatic conditions. The study used discrete choice theory to guide the researcher, whereas the theories employed differ.

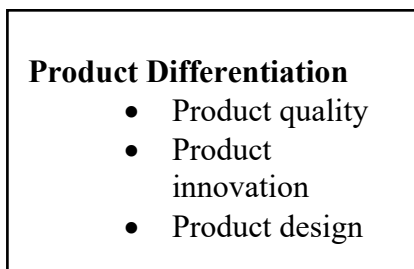
A study by Adegboyega and Box, (2017) The impact of product innovation on organizational performance was examined, with Nestle Nigeria PLC as the case. Research survey methodology was adopted on 340 respondents, and results were interpreted using the SPSS package. It was concluded that when buyers regard a product as better and go ahead to purchase it, the organizational performance will improve. The researcher limited the study to traditional economic theory.

An investigation by Mwanzia (2015) on the effect of differentiation strategy on market share of tea export firms in Kenya was carried out. Cross-sectional survey methodology was employed. Data were examined, and the findings were that, under the adopted differentiation strategies, value-added products ranked highest, while pricing ranked lowest. Successful product differentiation strategies lead to superior performance (Porter, 1985).

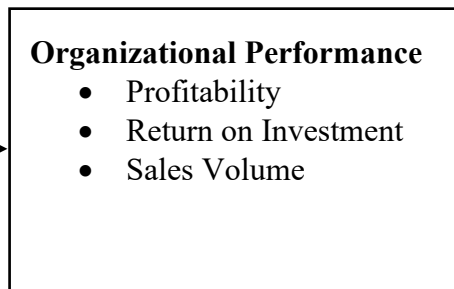
### 2.3 Conceptual Framework

The conceptual framework treated product differentiation strategies as the independent variables, with organization performance as the dependent variable.

#### Independent Variable



#### Dependent Variable



**Figure 1: Conceptual Framework**

### 3. Methodology

The study adopted a descriptive survey research design to examine how product differentiation influences cement manufacturers' performance in Kenya. The target population consisted of 375 employees drawn from selected cement firms. A sample size of 112 respondents, representing 30% of the total population, was determined for the study. A pilot test was carried out at Mombasa Cement in Kilifi County to assess the reliability and clarity of the research instrument. Data were collected using structured questionnaires, administered via a drop-and-pick-later approach to maximize response rates. Analysis of the collected data involved descriptive statistics and correlation techniques to assess the nature of the relationships among the study variables.

### 4. Results and Discussion

#### 4.1 Descriptive Statistics of Product Differentiation and Organizational Performance

The objective of the study was to examine the effect of product differentiation on the performance of cement manufacturing companies in Kenya. The mean response rates and the Standard deviations from the informants were calculated. For ease of breakdown of analysis, 5 and 4 (strongly agree and agree) were classified as agree, 2 and 1 (disagree and strongly disagree) were classified as disagree, while 3 (neutral) represents no opinion. The outcome is shown in Table 1.

**Table 1: Product Differentiation**

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std. Dev
The company conducts quality control checks at key production and supplier facilities to ensure product quality.	6 (6.7%)	4 (4.5%)	12 (13.5%)	19 (21.3%)	48 (53.9%)	4.11	1.21
We strive to differentiate our products from those of competitors.	6 (6.7%)	9 (10.1%)	6 (6.7%)	28 (31.5%)	40 (44.9%)	3.98	1.24
We have introduced additional products to expand the existing product line.	5 (5.6%)	11 (12.4%)	13 (14.6%)	32 (36%)	28 (31.5%)	3.75	1.19
Our company has developed a strong brand identification in the market through our products.	5 (5.6%)	12 (13.5%)	8 (9%)	27 (30.3%)	37 (41.6%)	3.89	1.25
We have invested heavily in product innovation.	4 (4.5%)	4 (4.5%)	6 (6.7%)	31 (34.8%)	44 (49.4%)	4.20	1.06
We often design and produce new products to fit our customers' needs.	7 (7.9%)	11 (12.4%)	9 (10.1%)	22 (24.7%)	40 (44.9%)	3.87	1.32
<b>Average</b>						3.9	1.2

The outcome in Table 1 showed that most informants, totaling 67 (75.2%), concurred with the assertion that their company conducts quality control checks at key production and supplier facilities to ensure product quality (Mean=4.11, Std. Dev=1.21). This implies that conducting quality control checks on products helps ensure they are of good quality. Further analyses revealed that most of the informants (68, 76.4%) agreed that they strive to differentiate their products from their rivals (Mean=3.98, Std. Dev=1.24). This implied that most cement companies ensured their products differed from those of their competitors. Furthermore, more outcomes revealed that most of the interviewees (60, 67.5%) concurred that they have introduced additional products to expand the existing product line (Mean=3.75, Std. Dev=1.19). This means most cement companies produce products other than cement.

Further investigation showed that most informants (64, 71.9%) admitted that their company had developed strong brand identification in the market through its products (Mean=3.89, Std. Dev=1.25). This translates to creating a strong brand, which boosts customer loyalty and thus enhances the company's performance. The outcome also showed that most of the informants (75, 74.2%) agreed that they have invested heavily in product innovation (Mean=4.20, Std. Dev=1.06). This implies that most cement companies invested in innovation. In addition, findings revealed that most of the populace (62, 69.2%) admitted to often designing and producing new products to meet their customers' needs (Mean=3.87, Std. Dev=1.32). This means that most cement companies invested in new product designs so as to attract more customers.

## 4.2 Descriptive Statistics of Organizational Performance

The descriptive results for organizational performance were displayed in Table 2.

**Table 2: Organizational Performance**

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Disagree	Mean	Std. Dev
The company's profitability has increased, which could be attributed to its use of differentiation strategies.	3 (3.4%)	6 (6.7%)	7 (7.9%)	36 (40.4%)	37 (41.6%)	4.10	1.03
The company's sales volume has increased, which could be attributed to its use of differentiation strategies.	5 (5.6%)	9 (10.1%)	5 (5.6%)	34 (38.2%)	36 (40.4%)	3.98	1.18
The company's return on investment has increased, which could be attributed to its use of differentiation strategies.	4 (4.5%)	4 (4.5%)	5 (5.6%)	32 (36%)	44 (49.4%)	4.21	1.05
Average						4.1	1.0

The outcome in Table 2 shows that a large proportion of the population (73, 82.0%) agreed that their company's profitability had increased, which could be attributed to the use of differentiation strategies (Mean=4.10, Std.dev=1.03). This implies that the use of differentiation strategies enhanced company profitability. Further results showed that the majority of respondents (70, 78.6%) reported that their company's sales volume had increased, which could be attributed to the use of differentiation strategies (Mean=3.98, Std.dev=1.18). This implies that the use of differentiation strategies increased company sales. To add to these, results revealed that most respondents (76, 85.4) concurred with the remark that their company's return on investment had increased, which could be attributed to the use of differentiation strategies (Mean=4.21, Std.dev=1.05). This implies that the use of differentiation strategies enhanced company ROI.

## 4.3 Correlation Analysis

To understand the connection between the independent and dependent variables, a correlation analysis was performed to quantify the strength of the relationship. The Outcome was displayed in Table 3.

**Table 3: Correlation Results**

	Organization Performance	Service Differentiation	Distribution channel distribution	Product differentiation	Image Differentiation
Organization Performance	Pearson Correlation 1				
Product differentiation	Pearson Correlation Sig. (2-tailed)	.672** 0.000	.546** .000	.389** .000	1

The outcome in Table 3 showed that product channel differentiation was strongly positively correlated with organizational performance ( $r=0.672$ ,  $p=0.000$ ). This meant that product differentiation was strongly positively correlated with organizational performance. This conclusion concurred with Maria, (2016) That product differentiation discordantly affected the operational performance of SMEs.

## 5. Conclusion

The study concluded that there was a definite and vital relationship between product differentiation and organizational performance. In addition, conducting quality checks on products before distributing them to consumers helped companies sell higher-quality products, which improved their performance. Differentiating products from competitors also helped improve the firm's competitive advantage. Further, firms with product diversification had higher revenues than those without.

## 6. Recommendations

The study recommends that cement companies should allocate resources to their research and development departments to gain prompt ideas needed for prioritization and better product expansion. This is because market trends and strategies are changing more quickly. Research and development promote the development of new and innovative products, giving cement companies a competitive edge and, ultimately, improving organizational performance.

The research also recommends that cement companies should allocate an advertising budget to effectively promote their products, thereby boosting their firm's performance. Further, firms need to ensure they have a compelling brand position relative to their competitors to enhance their performance. The management of cement companies should also ensure effective communication within their firms to enhance operational efficiency.

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