Effect of Market Penetration Strategy on Sales Growth of Coffee Export in Kenya

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Abstract

Kenya is one of the leading coffee exporters in the world. In July 2021, the number of coffee export sales in Kenya was recorded at 1.2 thousand metric tons, showing a significant recovery from the previous months. This recovery increased the auction price to $ 6.23 /kilogram, up from $ 5.5/kilogram. However, coffee sector has experienced a boom and bust in the past two decades. Unlike horticultural products whose prices remain constant for an economically significant period, the prices for coffee products have been fluctuating. The global market is highly volatile and the question is: could coffee market instability be a result of changes in consumer preferences, supply-demand trends, and unpredictable prices of coffee products? It would be interesting to establish whether a market penetration strategy could solve these issues, and make coffee business predictable. The study sought to evaluate the effect of market penetration strategy on sales growth of coffee export in Kenya, using a cross-sectional survey design. The target population was 157 coffee marketing firms in Kenya. A sample size of 384 respondents was selected using stratified random sampling. Analysis of data utilized Spearman correlation analysis and binary logistic regression. Results revealed a strong and positive correlation ($r = .672$, p-value = 0.000) at a significance level of 0.01 between market penetration strategies and the sales growth of coffee exporters in Kenya. Thus concluding that market penetration strategy significantly affected the sales growth of coffee exports in Kenya. Further, exporters were recommended to develop a market penetration strategy tailored to Kenyan coffee market to establish a clear understanding and potential for coffee exports. Additionally, an analysis of the country's coffee consumption habits and trends and an assessment of the competitiveness of the Kenyan coffee industry to promote the growth of coffee export from Kenya need to be carried.

Key words: *Market penetration strategy, sales growth, coffee export*

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1.0 Introduction

Sales growth of coffee exports refer to the growth in the value of coffee that is exported from one country to another. This growth is typically measured in terms of the volume of coffee exported, and can be impacted by factors such as market conditions, global demand, and other factors. Market penetration strategy is used to increase the sales of a particular product or service by targeting existing customers and exploring new markets. It involves expanding sales in existing markets, as well as looking for new markets in order to increase market share (Anderzén et al., 2020). Market penetration aims to increase sales and grow business by expanding into new markets or increasing its share of the existing market.

Coffee exporters can use different market penetration strategies to increase sales growth (Authority, 2019). Some of the strategy include expanding into new markets, increasing marketing and promotion efforts, and improving product quality. Expanding into new markets is a great way to increase sales growth, and gives coffee exporters access to new customers. Additionally, increasing marketing and promotion efforts can also help to boost sales growth since it can increase awareness of the coffee exporter's products and make them more appealing to potential customers. Improving product quality can also lead to increased sales growth, as customers are more likely to purchase high-quality coffee (Banga, 2022).

In China, coffee exporters use different market penetration strategies to increase sales growth (de Almeida & Zylbersztajn, 2017). One strategy is lowering prices to make their products more affordable and attractive to potential customers. They also enhance advertising and promotion efforts to raise awareness of their products. Coffee exporters create new and innovative products that appeal to a wider range of consumers (Gao et al., 2016). By implementing one or more of this strategy, coffee exporters in China have seen a significant increase in sales growth.

Among the top six producers of coffee, Ethiopia produces quality Arabica coffee globally (Bekele & Mersha, 2019). African consumption demand has improved to the extent that South Africa's huge population currently provides a huge coffee market in Africa. This was associated with the increase in coffee consumption by the middle class in the South Africa. Coffee products and all other commodities that are key economic boosters in Africa experience punitive disparities during supply (Pascucci, 2018).

Coffee exporters in Kenya can use market penetration strategy to increase sales growth by targeting new markets or customer segments (Chang'alwa & Kimaku, 2022). This could be done through expanding into new geographical markets or increase marketing efforts to reach new customer groups. They could introduce new coffee products or services that appeal to new customers. Market penetration can be an effective growth strategy for coffee export in Kenya. By offering discounts or engaging in marketing campaigns, coffee exporters can increase sales and grow their businesses (Osano, 2019).

Additionally, introducing new products or services can help coffee exporters penetrate a market and expand their customer base. Some of the strategies include lowering prices to attract more customers, increasing marketing and advertising efforts to raise awareness of the coffee brand, and expanding distribution channels to reach more potential buyers. Coffee exporters could also focus on developing new products or services that address unmet needs in the market (Chebet et al., 2022) by implementing a comprehensive market penetration strategy for coffee exports in Kenya. This can improve their chances of achieving sales growth and expanding their business.

"Market penetration aims to increase sales and grow business by expanding into new markets or increasing its share of the existing market"

Businesses in Kenya benefit from the export of coffee because it creates jobs, strengthens international bonds, brings in foreign currency, and fosters economic and physical development in the country (Mordor Intelligence, 2018; Pendant, 2014). These factors have helped the Kenyan government's big four plan, which included making sure there was plenty of food within the borders of Kenya, and therefore help accomplish its vision 2030 goal of achieving annual growth of 10 percent. However, Kenya's coffee sector has experienced both boom and bust over the past two decades. Unlike other manufactured goods, such as horticultural products, whose prices remain constant for an economically significant period, this phenomenon was not observed in coffee items (Karanja, 2018). As a result, coffee farmers felt the strain of the industry's prices swings, which led to financial losses, a decline in coffee farmers' commitment to the land, and ultimately, a decrease in coffee output (Kenya Coffee Producers and Traders Association [KCPTA], 2012). This study, therefore, sought to evaluate the effect of market penetration strategy on the sales growth of coffee exporters in Kenya.

Among Kenya's commercial banks, Schoviah (2012) examined how different marketing distribution channel methods impacted company performance. According to the research, financial institutions leverage branch locations, online banking, and various channels of distribution. The banks utilized aggressive, mass, and value marketing tactics. Akitonye and Ayotunde (2015) used market penetration strategy to improve the market share of multi-choice Lagos, Nigeria and found that penetration as a strategy had the best payoff, with minimal risks. The study used a descriptive survey as opposed to this study which applied a cross-sectional survey to evaluate the variable. Muriithi and Waithaka (2020) analyze how Agrochemical Companies in Nakuru County, Kenya, respond to a market penetration strategy and how that strategy affects company performance. Through regression analysis, it was discovered that there was a positive and statistically significant association between market penetration strategy and the success of agrochemical firms. Important implications for managers, academics, and policymakers emerge from this study. The results show that the managers' methods for penetrating new markets affected the financial success of their agrochemical businesses. The results show that the government has to create regulations that will support the market penetration strategy adopted by agrochemical companies, and which improve the sector's performance as a whole.

These results provide new insight into how market penetration strategy influences business outcomes. Acar and Temiz (2017) studied the effects of advertising on the financial performance of the banking sector in Turkey. There was a recognizable and positive link between promotional cost and monetary growth. The prolonged benefits of advertising were determined, and the positive relationship between adverts costs and capital gain that expanded with time established. Small and medium-sized businesses (SMEs) in the Kuwaiti fast food industry were compared to multinational corporations (MNCs) in terms of marketing results (Richard et al., 2019).

The study revealed that bigger firms applied their strengths in major capital against their competitors. Large enterprises (LEs) outreached Small and Medium Enterprises (SMEs) in all areas evaluated, including buyer contentment, consumer loyalty, adaptation speed, demand uplift, and investment gain. LEs favored penetration strategy through trial and managed ways of positioning themselves higher in customer contentment and retention.

In their research, Bayer et al. (2020) compared the effectiveness of traditional and digital advertising. Advertising channels like display and sponsored search drove up sales than Tobin's q valuation did for participating businesses. Paid search engines improved targeting capabilities and proved more effective in driving sales than traditional forms of advertising. Consistent with its long-term impacts, display advertising was found to have a larger beneficial impact on Tobin's q than offline advertising. These findings revealed that different forms of advertising had varying economic benefits, which have important implications for both internal and external stakeholders when evaluating the efficacy of advertising and the success of a corporation. Adamu (2020) investigated the impact of marketing innovation on the success of Nigeria's small and medium-sized businesses. Findings suggest that businesses benefit from implementing a marketing innovation strategy.

Organizational performance at Kenya's public universities was analyzed by Auma and Waithaka (2020), who investigated the impact of market penetration strategy. The research concluded that public university performance could benefit from adopting a market penetration expansion approach. University spending on advertising was boosted to promote academic programs. Bulle (2020) analyzed how different market penetration methods have impacted Telkom

Kenya Limited (Nairobi City County) overall performance. Positive and substantial relationships between pricing strategy, distribution channel strategy, diversification strategy, differentiation strategy, and firm performance were considered in the research. The relationship between diversification strategy and organizational performance in established and developing economic situations was the primary subject of Yigit and Behram's (2013) research. When values for organizational success are high for single enterprises and unrelated diversification in Turkey, data shows that the same is true for dominating businesses in the Netherlands.

The impact of diversification policies on the efficiency of Kenyan commercial banks was studied by Mwangi (2016). Mobile and online banking were among the most frequently used of the 17 diversified product types examined in the study. Key marketing methods that commercial banks in Kenya can employ to improve their performance include adding new product features to the existing product (price), branding / rebranding most existing products, and relaunching them into the market. Impact of distribution channel differentiation on organizational performance was examined by Adimo and Osodo (2017). Their study focused on Sameer Africa Limited in Nairobi, Kenya. The findings indicated that there has been an uptick in the use of channel differentiation strategies like analyzing the market for the best channel to use, utilizing multiple channels to distribute a product to cut down on distribution costs, and reselling some products and services via middlemen and allied businesses.

2.0 Materials and Methods

A positivistic philosophy approach was adopted in the study because the approach takes a stance that knowledge developed is grounded on mindful observation and measurement of focus to real life, and problems scrutiny which are viewed as unconstrained and disparate (Joslin & Muller, 2016). A cross-sectional survey was adopted as the blueprint because a study on coffee market penetration strategy on sales growth could not be possible without prompt data collection so that the researcher could establish patterns of influence of the performance of coffee exporters in Kenya, as presented in Table 1

Table 1

Sample size

Sample Size			
Categories	Strata	Number to be sampled	Total
Coffee dealers	84	2	168
Coffee millers	15	3	45
Commercial marketing agents	11	3	33
Grower marketers	22	3	66
Commercial warehouse men	14	3	42

Private warehouse men	7	3	22
Management agents	4	3	8
Total	157		384

The target population was all 157 coffee marketing firms in Kenya, as reflected on table 1 above. Respondents in marketing were randomly selected from all the exporters in Kenya. Since the population size was unknown, the formula n= $(Z^2_{\alpha/2}pq)/e^2$ (Glenn, 2003).
Where:
Z=Critical value at 95% confidence level
p=Probability of a success for the variable of interest
q=Probability of a failure for the variable of interest
e = Margin of error
The survey used a critical value at 95% confidence level (1.96), assuming that the value of p=0.5, q=0.5 and 0.05 error margin. Hence sample size given as:
$n = ((1.96)^2\ (0.5 * 0.5))/\ 0.05^2$
$n = (3.8416 * 0.25)/0.0025$
=384.16

The study, therefore, used stratified random sampling to get a sample size of 384 respondents.

The data were analyzed using both descriptive and inferential statistics. Means and medians were applied as measures of central tendency for quantitative and qualitative variables, respectively. Standard deviation and the interquartile range were used to measure the spread for quantitative variables, respectively. Spearman correlation and binary logistic regression analysis was used in the analysis. Data was presented using tables.

3.0 Results and Discussions

Market Penetration Strategies

Market penetration strategies occurs when a company works towards a higher market share by tapping into existing products in existing markets. It refers to how a company that already exists in the market with a product can grow business by increasing sales among people or consumers already in the market as indicated in Table 2.

Table 2

Market penetration strategy

Opinion	Disagreed	Agreed
Our organization employs license and distribution arrangements	17 (5%)	294 (95%)
Our organization allocates high levels of marketing expenditures	26 (8%)	285 (92%)
We have relatively reduced our prices	67 (22%)	244 (79%)
We Aggressively advertise our products in both existing and new markets	23 (7%)	288 (93%)
We Set the right market prices	46 (15%)	265 (85%)

We add new distribution channels often	60 (19%)	251 (81%)
Our organization has increased the intensity of distribution in each channel	16 (5%)	295 (95%)

The results indicated that the organization employs license and distribution arrangements as part of the market penetration strategy with 95% agreement. Licensing and distribution provide increased income and business opportunities while reducing risk and the manufacturing, marketing, or distribution expenses of expanding a business or corporation into a new market or geographical region. It's a great way to expand internationally while boosting profits and saving money through economies of scale (Bandy et al., 2020).

Further, results indicated that organizations allocated high levels of marketing expenditures, with 92% agreeing to that. Evidence for this comes from a study by Peers et al. (2017), which indicated that a shift in the government's marketing budget might boost tourism revenues by NZD $121.Respondents agreed that relatively, organizations reduced their prices by 79%, which was not as high as the earlier two. It was expected since not all Companies reduce their prices, but at least the majority did. Research by Muola (2017) indicated that price strategy significantly improved SME sales results in Kenya.

Further, the results showed that Companies aggressively advertise their products in both existing and new markets, with 93%. One researcher found that the likelihood that people would view mobile ads again was influenced by the degree to which they found them useful, annoying, and credible (Lin et al., 2017). Respondents agreed 85% that Companies set the right market prices. Bulle (2020) found a favorable and statistically significant relationship between pricing strategy, distribution channel strategy, diversification strategy, and differentiation strategy and organizational performance. Yet still, the results proved that exporting firms add new distribution channels often with 81%. At the same time, organizations had increased the distribution intensity in each channel, with respondents agreeing at 95%. According to Adamu (2020), there is a favorable relationship between market penetration strategy, customer experience management, and organizational competitiveness. Most companies also clearly benefited from adopting growth techniques, including advertising, price, and market penetration.

Sales Growth

Sales growth rate monitors capability of the firm to increase revenue through sales at a given measure of time. To some extent this is utilized by investors as well in checking out strengths and opportunities of the company, other than being wholly for the benefit of internal successes and challenges. Therefore, a reflection on Table 3.

Table 3

Sales Growth

Opinion	Disagreed	Agreed
Employment of digital marketing has increased our sales volume.	37 (12%)	274 (88%)
Customer service has added up due to availability of digital marketing	188 (60%)	123 (40%)
Our Customer fidelity has improved	207 (67%)	104 (33%)
The capacity to handle larger customers has been boosted by digital marketing	22 (7%)	289 (93%)
Number of customers has noticeably increased	22 (7%)	289 (93%)
Organization sales has improved	210 (68%)	101 (32%)
Conversion rate of sales has gone up	37 (12%)	274 (88%)

Table 3 shows that a company volume of sales had added with upgrading of digital marketing with 88% results agreeing to that. Being the technology era, this was expected. Kimathi et al. 2019 corroborates this finding by concluding that there was superb positive relation between technological advertisement and advancement of MSMEs. In cases where owners and executive implemented IT, they acknowledged growth of the companies, therefore recommending embracement of digital trade for sales maturity.

Next construct was whether customer service had increased with digital marketing. 60% of the respondents disagreed to that. However, customer loyalty had improved. This was unexpected since digital marketing was anticipated to reach too many customers both internally and globally. Khan and Islam (2017) observe that main drivers of customer's loyalty in digital marketing ranks value added attributes at the top, then followed by loyalty in content, customer service and packaging in that order. This could suggest value addition lacked in coffee export.

Moreover, a company's ability to handle larger group of customers had grown with digital marketing at 93%. According to Wang (2020), digital marketing capabilities contributed positively to growth. Firms with major entrepreneurial orientation leveraged on DMCs. Small firms with strong digital capabilities performed well, as did medium-size companies. However, larger companies performed better, hence corroborating with the findings of the study. Further, it was found out that the statement on whether organization sales had increased; was disagreed upon by 68% while conversion rate of sales had gone up with 88% in agreement. This was partly agreed upon by Djakasaputra et al. (2021) concluding that digital in market had foreseeable change on sales maturity in Indonesian SMEs. Yet still all stakeholders must be part and parcel of the marketing because if not so, sales do not increase.

Spearman Correlation Results

The study carried out correlation analysis of the independent factors and the dependent factor and the findings were summarized in Table 4.

Table 4

Spearman Correlation Analyses for Market Penetration Strategy versus Sales Growth

		Advertisement	Sales Performance
Advertisement	R	1	.672**
	Sig. value		.000
Sales performance	R	.672**	1
	Sig. value	.000	

**. Correlation is significant at the 0.01 level (2-tailed). N = 311

Table 4.1 indicates that there is a strong and positive correlation ($r = .672$, p-value = 0.000) at a significance level of 0.01 between market penetration strategies and the sales growth of coffee exporters in Kenya.

Binary Logistic Regression

Further Table 5 shows the coefficients, standard errors, t-statistics, p-values, and 95% confidence intervals for each variable.

Table 5

Binary Logistic Regression

Variable	Coefficient	Standard Error	t-Statistic	P-Value	95%CI Lower	95%CI Upper
Intercept	3.456	0.245	14.110	<0.001	3.066	3.846
Market Penetration	0.827	0.125	6.612	<0.001	0.583	1.071

The intercept is the value of the predicted sales growth when market penetration is zero. In this case, the intercept is 3.456, which means that the predicted sales growth is 3.456 when market penetration is zero. The coefficient for market penetration is 0.827, which means that for every one-unit increase in market penetration, the predicted sales growth increases by 0.827 units. The p-value associated with the t-statistic for market penetration is less than 0.001, which means that the relationship between market penetration and sales growth is statistically significant. The 95% confidence interval for market penetration ranges from 0.583 to 1.071. This means that we can be 95% confident that the true effect of market penetration on sales growth falls between these two values. These results suggest that there is a positive and statistically significant relationship between market penetration and sales growth. As market penetration increases, we can expect sales growth to increase as well.

4.0 Conclusions

The study concluded that all the strategies proposed under the market penetration strategy were appropriate as per the responses given by the respondents. The study revealed that market penetration strategy had a positive and significant effect on the sales growth of coffee export in Kenya. The Binary Logistic Regression analysis results revealed that p-value associated with the t-statistic for market penetration is less than 0.001, which means that the relationship between market penetration and sales growth is statistically significant. These results suggest that there is a positive and statistically significant relationship between market penetration and sales growth. Therefore, as market penetration increases, it is expected sales growth to increase as well.

5.0 Recommendations

The study recommends coffee firms to establish a clear understanding of the Kenyan coffee market in order to exploit the potential of coffee exports. This understanding should include an analysis of the country's coffee consumption habits and trends, as well as an assessment of the competitiveness of the Kenyan coffee industry. The study also recommends coffee firms to develop a market penetration strategy that is tailored to the Kenyan coffee market that takes into account the findings of the market analysis. Further, the study recommends coffee firms to implement market penetration strategy. Lastly, coffee firms should evaluate the results of the market penetration strategy and make adjustments as needed so as to continue promoting the growth of coffee exports from Kenya.

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