

# Effect of Marketing Strategy on the Performance of Savings and Credit Co-operatives in Kenya

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**Abstract:** The main objective of the study was to establish the effects of marketing strategy on the performance of savings and credit cooperatives in Kenya with a view of ameliorating the situation for socio-economic development. This study used a descriptive research design. Pilot study was conducted in 9 deposits taking Saccos. A survey of 172 deposit taking Sacco's was conducted for the study. Data was collected from the 172 deposit taking SACCOs in Kenya using questionnaires. Both quantitative and qualitative data was collected. The study used SPSS (Version 21) for the analysis and data output. Content analysis was used to address the qualitative information obtained from the key informants.

**Keywords:** Marketing Strategy, Performance, Savings and Credit Co-operatives.

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## 1. INTRODUCTION

According to the WOCCU Statistical Report (2015) there are 101 countries with credit unions, 56,000 total credit unions and 200 million members. The deposits and shares stood at USD 1.2 trillion, loans at USD 1 trillion, while assets and reserves were USD 1.6 trillion and 0.1 trillion respectively. According to WOCCU report (2014) the credit union movement is momentous in 100 countries, where more than 51,000 unions have nearly 200 million members. They have US\$ 1,563 billion in assets and more than 1,000 billion in loans. Some of the largest banks in the world, including Dutch Rabobank, Credit Agricole and Credit Mutuel in France, and DG Bank in Germany are cooperatives. The UK has now has over 5900 cooperative enterprises, compared to 4800 three years ago. They range from the mighty Co-operative Group, with £15bn turnover in food retailing, travel, pharmacy, banking and funeral care, to small co-ops of freelancers, taxi drivers, pubs and football clubs (WOCCU, (2014).

According to Danoyi (2013), in Switzerland, the largest retailer and private employer, is a cooperative. In Japan 9 million family farmers are members of cooperatives. Cooperatives are by their nature and principles socially inclusive and potent tools for empowerment of vulnerable groups. Indigenous people in remote rural areas, refugees, migrants, rural women, unemployed persons, the elderly and persons with disabilities have all founded cooperatives to improve their condition (Ibid, 2013). Worldwide, Cooperatives respond to demographic dissimilarities across countries. In ageing societies like those of Europe and Japan, health care cooperatives are playing an increasing role in providing health and other services for the elderly. Japan has pioneered the elderly persons' cooperatives, which combine job creation with the provision of social services to elderly citizens and thus ensure that they remain active citizens in the society (ILO, 2014).

Cooperatives worldwide are also providing young people with jobs and skills for creating their own enterprise address young people's concerns for democracy, autonomy, independence, social and environmental responsibility, and ethical business practices (ILO, 2014). In Spain for instance worker cooperatives have seen an increase of 7.5 per cent with nearly 13,000 newly created jobs during the course of the last quarter. In some countries, governments are promoting cooperatives for unemployed youth as in Panama and Morocco where entrepreneurship programmes provide specific support for cooperative start-ups. In many developing countries cooperatives are also major instruments for those working

in the informal economy by providing access productive inputs, product markets, build self-confidence, and achieve self-organization and collective voice.

Cooperatives also help millions of workers in urban and rural areas connect with Global Value Chains. The most importantly, they involve millions of small producers at one end, and millions of ordinary consumers on the other. In Ethiopia cooperatives represent over 22,000 small coffee growers. And in Japan there are, well over 1,200 fishermen's cooperatives. Cooperatives are at the forefront of the fair trade movement. Cooperatives are also uniquely positioned to contribute to the green economy. In many countries renewable energy cooperatives are taking an increasing slice of the energy market. Today, as the world looks for more stable and sustainable business models, and more responsible and principled governance than the irresponsible capitalism often seen and that contributed to the financial crisis, interest in cooperatives, employee-owned business, mutual organizations and other diverse forms of ownership is growing (Danoyi, 2013).

According to ILO (2014), Europe, for instance, 4,000 local cooperative banks serve more than 176 million customers, 50 million of whom are members. While European cooperative banks have 21 per cent of the market share they only accounted for 7 per cent of all the European banking industry's write-offs and losses during the recent financial crisis mainly due to their limited exposure to US subprime mortgages and fewer investment banking activities. The experience of Argentina with its multiple crises has seen the growth of enterprises that have been converted into cooperatives, a phenomenon with over a decade of experience. Similar initiatives have been taken in other countries in Latin America. Most recently the United Steel Worker Union in the USA is examining the possibility of SME conversions into worker cooperatives as a means of reviving local economies and maintaining and creating new jobs.

## **2. STATEMENT OF THE PROBLEM**

WOCCU (2008) showed that 38.3% of Kenyans are not included in financial services and use. The vision 2030 for financial services in Kenya can be fully achieved if SACCO members can transform their savings into viable investments. All these indicate low levels of deposits mobilization strategies and investment in Kenya. The problem of low deposits and investment comes at a time when African Confederation of Co-operative Savings and Credit Association workshop has classified SACCOs as vehicles for economic growth (ACCOSCA, 2011). Besides, the government of Kenya recognizes cooperatives as the major contributor to national development with the country's population of approximately 44 million (GoK, 2011).

The competitive environment has also seen changes. The competitive environment has also seen changes. The financial sector has been liberalized. Commercial banks offer salary loans while MFIs offer loans to small scale businessmen. These were traditionally markets dominated by SACCOs. SACCOs on the other hand have ventured into FOSA operations, funds transfers, salary processing. These were domains of commercial banks. Changes have also occurred in the information communication technology (ICT) world. All these changes together with others have led to the need for training and development for SACCO staff and board members. The financial sector has been liberalized. Commercial banks offer salary loans while MFIs offer loans to small scale businessmen. These were traditionally markets dominated by SACCOs. SACCOs on the other hand have ventured into FOSA operations, funds transfers, salary processing. These were domains of commercial banks. Changes have also occurred in the information communication technology (ICT) world. All these changes together with others have led to the need for training and development for SACCO staff and board members.

Report by SASRA (2014) identifies SACCO strategies in seeking alternative funding sources key amongst them being strict requirements/bureaucracy at 33%, inadequate government support at 29% and legal restrictions/SASRA regulations at 21%, default risks/poor repayment at 51%, inadequate funds to lend at 38% and securing loans i.e. guarantors/collateral at 23% and lack of proper legal framework at 23%. Further, due to the high failure of SACCOs, it is estimated that less than 50% of the target SACCO enterprises are unable to meet their strategic objectives (SASRA, 2013).

Ademba (2010) postulates that SACCOs in Kenya are faced by such problems as poor governance and, lack of members' confidence, among others, while Ndung'u (2010), adds that the SACCOs are encompassed by mismanagement and poor investment decisions. Further, the enhanced regulatory framework in the sector is not the panacea for inadequacies in the SACCO sector (Zetsche, 2011). In September 2012 SASRA issued a communication to SACCO's to comply with capital adequacy requirements as set out in (SACCO SOCIETIES ACT, 2008). SASRA developed a web-based electronic submission of financial returns (CAMELS) for objective analysis of the financial returns submitted by the licensed

SACCO's. It is because of the foregoing that the study sought to establish the effects of marketing strategy on the performance of savings and credit cooperatives in Kenya.

### **3. LITERATURE REVIEW**

Innovative and creative Marketing strategy are crucial for the success of deposit mobilization. Market studies are important for developing new savings products. Market research includes analysis of potential customers. Marketing strategy determines the choice of target market segments, positioning, marketing mix, and allocation of resources. It is most effective when it is an integral component of overall firm strategies, defining how the organizations will successfully engage customers, prospects, and competitors in the market arena of corporate strategies, corporate missions, and corporate goals. As the customer constitutes the source of a company's revenue, Marketing strategy is closely linked with sales (Madura, 2011).

The most important objective in any business organization is to identify and satisfy customers and therefore, marketing is central in any business firm. Marketing in any organization is to identify the most profitable marketing services now and in the future and assessing the present and future needs of customers. It involves setting business goals; making plans to meet them and managing services in such a way that those plans are achieved (Nwite, 2011). A market-focused organization first determines the potential customer's desire, and then builds the products or services. Marketing theory and practice are justified in the belief that customers use a product or service because they have a need, or because it provides a perceived benefit (Kotler and Keller, 2006).

Marketing strategy is used when current products are sold in new markets (Jobber, 1998). It is a strategies that utilizes present products. It may involve moving into new geographical markets or by moving into new market segments (Jobber, 1998). For services, a firm follows market development strategies if it focuses on new markets with the existing services. Here, the firm strives for customer acquisition by offering its new services to market segments which were not its previous customers (Bruhn & Georgi, 2006). SACCOs' market development is a frequently raising awareness about the SACCOs and their products, frequently encouraging non-members to join the SACCOs and frequently encouraging members to increase their savings. By encouraging members to increase their savings, it is assumed that, the SACCOs will increase their GLP which will eventually attract non-members (prospective borrowers) to join the SACCOs.

Deposit mobilization depends on marketing. Savers can only deposit their funds if they are aware of the services available to them. Savings institutions use a combination of sales, cross-selling, media advertising, point-of-sale advertising, direct marketing, and promotions to attract savers (Muluneh, 2012). The marketing effort may involve market research or feasibility studies to examine demographic and economic characteristics of the local market. As Linares points out, quantitative research provides data from secondary information sources such as census and databases. Qualitative data is gathered from primary sources, such as focus groups and client surveys. Linares (2014) provides an overview of commonly-used quantitative and qualitative market research tools.

Opoku (2011) reviews promotional strategies based on image, quality of service, and rates of return. He contends that strategies based on image, or brand, are the least expensive and most efficient ways to mobilize increased savings. A common theme throughout the paper, Opoku notes that to compete in the savings market, an institution must project an image of professionalism, safety, and security. These are the elements around which an image, or brand, is built. The branded image is reinforced with appealing names, attractive logos, standardized printed materials, and uniforms. An attractive physical infrastructure strengthens the perception of the brand. Savings institutions need physical facilities that project an image of security: secure doors, grills for windows and air conditioners, strong boxes, vaults, and security systems. Well-lit, bright, and clean teller areas and lobbies are reassuring to savers. Uniformity of presence reinforces the image of professionalism. Branch offices should carry the same name, signage, and building façade as the main office. Colors and interior design elements should also be standardized. This uniform presence sends a clear message to clients that they can expect consistent quality of service from all points of service (Wubitu, 2012).

### **4. RESEARCH METHODOLOGY**

The study used cross-sectional survey with a descriptive research design. The target population of this study was 181 authorized deposit taking SACCOs in Kenya that have been in existence for at least the last 5 years SASRA (2014). The firms which have been there for 5 years are considered to have adequate knowledge and have deposit mobilization strategies in place. The study used questionnaires as the main data collection instrument that contains both open ended

and close ended questions. Primary data was collected through administering of questionnaires to Members of the SACCOs, senior staff of the SACCOs and Cooperative Ministry/regulatory officials. Data was collected using semi-structured questionnaires as the principal data collection instrument. The study employed descriptive analysis technique on both primary and secondary data. In both cases, the study used SPSS (Version 21) in the analysis and data output will be tabulated and on the secondary data, the study applied Ordinary Least Squares (OLS). Content analysis was used to address the qualitative information obtained from the key informants.

## 5. FINDINGS

The study sought to find out if the Sacco has implemented the marketing strategies. According to the findings, 57.4% of the Saccos had implemented the marketing strategies while 36% had not implemented marketing strategies.

**Table 1: Marketing strategy**

	Percent
Yes	57.4
No	36.0
<b>Total</b>	<b>100.0</b>

The study sought to find out if in respect of strategies that the Sacco has implemented, if they felt there is need to change. According to respondents, 34.7% of the respondents indicated that there is need to change while 65.3% indicated that there was need to change.

**Table 2: Change of strategies implemented**

	Frequency	Percent
yes	84	34.7
no	158	65.3
<b>Total</b>	<b>242</b>	<b>100.0</b>

The study sought to establish how true one can attribute the improvement in the Sacco membership base to the strategies. According to the findings, respondents agreed that Use of advertising could be highly attributed to the improvement in the Sacco membership base as shown by a mean of 4.32 and a standard deviation of 0.89. They also agreed that Market Segmentation could be highly attributed to the improvement in the Sacco membership base as shown by a mean of 4.37 and a standard deviation of 0.87. The respondents also agreed that sales promotion could be highly attributed to the improvement in the Sacco membership base as shown by a mean of 4.36 and a standard deviation of 0.87. Members education could be highly attributed to the improvement in the Sacco membership base as shown by a mean of 4.29 and a standard deviation of 0.91. Sales leadership could be highly attributed to the improvement in the Sacco membership base as shown by a mean of 4.36 and a standard deviation of 0.91. The findings are as shown below.

**Table 3: Sacco membership base**

	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree				
			Row N %	Row N %	Row N %	SUMMARIES			
	Row N %	Row N %	%	%	%	Mean	Median	Mode	Standard Deviation
Use of advertising	.0%	7.0%	7.9%	31.4%	53.7%	4.32	5.00	5.00	.89
Market Segmentation	.0%	6.2%	7.0%	30.2%	56.6%	4.37	5.00	5.00	.87
Sales promotion	.0%	6.2%	7.4%	31.0%	55.4%	4.36	5.00	5.00	.87
Members education	.0%	7.4%	8.7%	31.0%	52.9%	4.29	5.00	5.00	.91
Sales leadership	.0%	7.9%	6.6%	27.3%	58.3%	4.36	5.00	5.00	.91

Branch (2015) points out that branding can be applied to products as well as institutional images. Savings institutions give appealing and memorable names to savings products in order to associate them with a high-quality image. Names may be assigned based on account size: platinum, gold, or silver, or according to purpose, home improvement savings or school fee accounts. Consistency of the product image and branding is carried through on brochures, lobby signs, posters, and paper forms and applications. Later, Ngula (2012) point out that institutions must be sure to use appropriate Marketing strategy for each market niche in their efforts to manage the costs related to deposit mobilization.

Regression analysis was conducted to check on the significance of the relationship between marketing strategy and performance. Figure 1 indicates that majority of the observed points appears in the first quadrate and the line of best of fit indicates an estimate line that is increasingly, positively, upwards. This implies that there is a positive linear relationship between marketing strategy and performance.

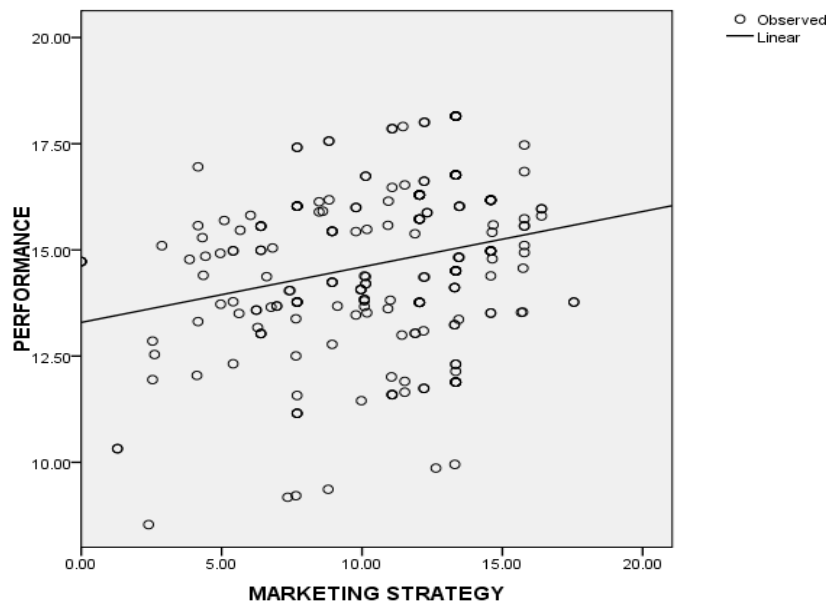


Figure 1: Scatter plot of marketing strategy

Table 4.28 presents the regression model on marketing strategy versus performance. As presented in the table, the coefficient of determination R square is 0.065 and R is 0.255 at 0.05 level of significance. These results indicate that **6.5%** of the variation on performance can be explained by marketing strategy.

Table 4.28 further presents the results of Analysis of Variance (ANOVA) on marketing strategy and performance. As presented in the table the ANOVA results for regression coefficients indicates an F statistic of **16.774** with a significance level of **.000** which is less than 0.05 hence implying that there is a significant relationship between marketing strategy and performance.

The study further determined the beta coefficients of marketing strategy on performance. Table 4 shows that marketing strategy influences performance positively since the coefficient of marketing strategy is .131 which implies that a single unit change in marketing strategy causes performance to increase by **0.131** units. The associated significance level is **.000** which is less than the threshold of .05 indicating that marketing strategy is statistically significant in explaining the variations in performance. The fitted model can thus be given by,  $Y = 13.294 + 0.131X_2$  (Where  $X_2$  is marketing strategy)

Table 4: Model Summary results

Equation	Model Summary					Parameter Estimates	
	R	R Square	F	df1	df2	Constant	b1
Linear	0.255	.065	16.774	1	240	13.294	.131
Sig.	.000		.000			.000	.000

## 6. CONCLUSION AND RECOMMENDATION

Factor analysis was done to reduce the data and filter the marketing strategy items to manageable and meaningful size where 17 items met threshold of 0.4 and above. Descriptive statistics were used to analyze this research objective and other subsequent analysis was done. According to the findings, 57.4% of the Saccos had implemented the marketing strategies while 36% had not implemented marketing strategies. Regression analysis results indicated that marketing strategy has a positive significant relationship with performance of SACCOs in Kenya. The results indicated that supervisor support explains 6.5% of performance of SACCOs in Kenya. This which show that the precision under consideration was 0.000 and this meets the threshold since  $p < 0.05$  indicating that marketing strategy was statistically significant in explaining the performance of SACCOs in Kenya.

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