

## ABSTRACT

The manufacturing sector is faced with constant changes and challenges which make it very dynamic and complex in nature. Due to this, most manufacturing firms especially in the edible oils sector have been compelled to differentiate their products in order to improve their performance. The purpose of this study therefore was to establish the effects of product differentiation strategies on performance of selected edible oils manufacturing firms in Kenya while considering the mediating effect of customer loyalty. Specifically, the study sought to establish: The effects of price differentiation strategy on performance of selected edible oils manufacturing firms in Kenya, the effects of design differentiation strategy on performance of selected edible oils manufacturing firms in Kenya, the effects of quality differentiation strategy on the performance of selected edible oils manufacturing firms in Kenya and finally the mediating effect of customer loyalty on the relationship between product differentiation strategies and performance of selected edible oils manufacturing firms in Kenya. The study employed explanatory research design, positivism research philosophy and was guided by Porter's theory of competitive advantage, discrete choice theory of competitive advantage, customer loyalty business model and the balanced score card model. The target population was 535,840 respondents of which 104 were top and middle level employees from the sales and marketing departments of the three selected edible oils manufacturing firms and 535,736 were consumers of the products within the middle-class estates in Nairobi. A sample size of 504 respondents was used for the study. Structured questionnaires were used to collect primary data and a document analysis guide was used to collect secondary data for the study. Validity of the research instruments was ascertained using expert judgement and Kaiser-Meyer-Olkin (KMO) test where values of more than 0.6 were achieved for all the variables. Reliability was measured using the test-retest method and Cronbach's Alpha coefficient test where values of more than 0.7 were achieved. Data was analysed using descriptive statistics, linear regression and correlation analysis and results presented using tables. The results of the study revealed that Price differentiation, design differentiation and quality differentiation strategies had a positive and significant effect on the performance of the selected edible oils manufacturing firms in Kenya with p values of ( $p = 0.039 < 0.05$ ), ( $p = 0.014 < 0.05$ ) and ( $p = 0.001 < 0.05$ ) respectively. In testing the mediation effect of customer loyalty on firm performance, the results revealed that product differentiation strategies had a positive effect on customer loyalty ( $p = 0.011 < 0.05$ ), customer loyalty had a positive and significant effect on the performance of the selected edible oils manufacturing firms in Kenya with p values of ( $p = 0.002 < 0.05$ ) and finally the study revealed that customer loyalty mediating factor has a significant positive variance, (R-square change = .028 had a p value = .005) implying that it has a positive mediating effect on the relationship between product differentiation strategies and performance of the selected edible oils manufacturing firms in Kenya. The study concluded that product differentiation strategies are fundamental for firm performance and they do have an effect on customer loyalty which in turn influences firm performance. The study further concluded that customer loyalty partially mediates the relationship between product differentiation strategies and firm performance. The study recommended that manufacturing firms should continuously conduct market research to keep up with the changing customer's tastes and preferences and differentiate their products using creative and innovative strategies to meet the customer's needs.