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Influence of Customer Retention on Market Share in Chemelil Sugar Company Limited, Kenya

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Abstract:
This study determined the influence of customer retention on market share in Chemelil Sugar Company in Kenya. The study was conducted using a case study research design. The study employed stratified random sampling, census and purposive sampling techniques to select 116 customers, 16 marketing staff and 40 informants respectively. Both primary and secondary data was used. While secondary data was obtained from authoritative documentations from the target units, primary data was collected by use of questionnaires at Chemelil Sugar Company Limited. Quantitative data was tested by use of inferential statistics and qualitative data analysed using descriptive analysis techniques and presented in form of frequency tables and charts. The sugar firm ensures retention of customers in order to reduce the cost of acquiring new customers. This was attained through making existing customers were satisfied and the long term relationship was maintained. The firm Customer retention played a critical role within CRM strategy and customers continue to be loyal to the firm when they feel and realize the better value being offered. There was a positive relationship between the customer retention and market share (r=.615, n=69, p<.05). The customer retention is one of the CRM outcomes influencing market share in sugar sector. The sugar firms should devote much attention and effort in retaining existing ones rather than attracting new customers. The sugar firms should also emphasize more on building relationship and caring for the customers rather than making sales.

Keywords: *Customer, retention, market share*

1. Introduction

Customer retention refers to a firm's 'zero defections' of profitable consumers or no switches from profitable consumers to competitors (Reichheld 1996). Menon and O'Connor (2007) define customer retention as the longevity of a consumer's relationship with a firm. Based on the literature, the variables that can possibly influence firms' relationship marketing and customer retention include communication, knowledge ability, empowerment, personalization, fees, ethical behaviour and technology. In fact, it is easier and more profitable to sell to present customers than to find new ones. Organizations are setting themselves strategies to ensure customer retention, and changing their employees to be more customer-focused and service-oriented (Mohsan *et al.,* 2011). Experience indicates that 68% of the customers do not return because of indifferent attitude of an employee, 14% because of product satisfaction, 5% because of competitive reasons, 5% shop at a friend's establishment, 3% move away and 1% die. Also amongst the reasons sales people let opportunities for making profitable sales slip away is lack of concern for customers

Customer retention rates and customer share are important metrics in CRM (Wittink *et al*., 1999; Reichheld 1996). In the current era of hyper-competition, markets are found to be more concerned with customer's retention and loyalty (Dick and Basu, 1994; Reichheld, 1996). As several studies have indicated, retaining customers perhaps offers a more sustainable competitive advantage than acquiring new ones. What marketers are realizing is that it costs less to retain customers than to compete for new ones (Rosenberg and Czepiel, 1984). Customer retention has a significant impact on firm profitability. Gupta *et al.*, (2004) find that a 1% improvement in retention can increase firm value by 5%.

The establishment of parastatals in Kenya was driven by a national desire to accelerate social, economic development, address regional economic imbalance, increase Kenya citizen's participation in the economy, promote indigenous entrepreneurship and promote foreign investment through joint venture. The sugar industry plays a significant in socio-economic development of the Kenyan economy directly supporting over 200,000 small-scale farmers who supply over 85 percent of the cane milled by the sugar factories. It is estimated that over six million Kenyan derive their livelihood directly or indirectly from the industry (KSB 2010).

Chemelil Sugar Company's was established in 1968, with main business focus being the production of mill white sugar as part of the national strategy of achieving self-sufficiency in food production as well as contributing to economic growth and development in western Kenya. The expected benefits of the CRM program and the enabling of the organization to measure the influence and implication on the organizational performance are two important dimensions of the benefits of understanding CRM processes which the company has not included in its current reviewed strategic plan, which articulates its vision, mission and strategic objectives for the next five years. The new vision of the Company is “To be the company of choice in the manufacture of sugar and related products in the region”. In line with the vision, the company’s mission is “To produce and market quality sugar and related products efficiently and competitively to the expectations of the stakeholders”.

The ever increasing numbers of already registered customers switching to other companies implies that, Chemelil Sugar Company is currently facing a problem of losing customers to its competitors. This, coupled with other factors such as mismanagement of funds, politics and illegal importation of sugar, has led to huge losses thus negative growth. The implication of this is far reaching since it is likely to result in downsizing of affected company’s employees and consequently disadvantage their dependents. Explicably, sugar companies devote much of their resources in attracting prospective customers while they simultaneously fail to address the issues of how to manage existing relationship in order to increase market share. Presumably, these firms fail to maintain long-term relationships with their customers; a situation that negates market share.

In a study on relationship marketing and customer loyalty in mobile telecommunication sector in Nairobi, Kenya, it is stated that CRM has become a strategic imperative for all firms since its effective implementation can increase customer satisfaction, loyalty and retention (Kibeh, 2013). Ideally, the author notes, there are various ways marketers can employ to implement relationship marketing practices, which in turn can impact on customer retention. When citing Zeithanl (2008), Kuria observed that service firms do provide superior value through enhanced offers which can improve customer satisfaction by increasing the customer’s perceived benefits with the aim of retaining customers. It is against this backdrop that this study is necessitated with the aim of assessing how customer retention influence market share in the sugar sector.

2. Customer Retention

Organizations acknowledge that indeed customer retention is more profitable than customer attraction. In line with this argument, the interest of firms in adopting CRM practices and crafting strategies to develop close and long-lasting relationships with the most profitable customers is observable. It is noted that customer loyalty and customer retention are the most vital challenges faced by majority of chief executive officers (CEOs) across the world (Ball, 2004). Bhardwaj (2007) points out that the key challenge facing all marketers today is in identifying modalities of enhancing customer loyalty and retention. In other words, transformation of indifferent customers into loyal ones and as such establishing a long term relationship with customers is very critical for organizational success. Several empirical studies bring to the fore the argument that, the effect or relationship marketing on behavioral loyalty leads to customer retention (Bolton *et al.,* 2000; Verhoef, 2003). In their study on Jordanian banks, Alrubaiee and Al-Nazer (2010) assumed that relationship marketing orientation could help banks to achieve customer retention.

Customer retention efforts involve considerations such as customer valuation – Gordon (1999) describes how to value customers and categorize them according to their financial and strategic value so that companies can decide where to invest for deeper relationships and which relationships need to be served differently or even terminated and customer retention measurement–Dawkins and Reichheld (1990) calculated a company's "customer retention rate". This is simply the percentage of customers at the beginning of the year that is still customers by the end of the year. In accordance with this statistic, an increase in retention rate from 80% to 90% is associated with a doubling of the average life of a customer relationship from 5 to 10 years. This ratio can be used to make comparisons between products, between market segments, and over time.

Verhoef, (2003), ina study of scope of CRM's effect on both customer retention and the growth of customer share, showed that both the customer's desire to extend his/her relationship with the institution and his reliance on the customer-loyalty programs positively affect customer retention and the growth of the customer's share. Meanwhile, the use of direct mail only affects the growth of the customer's share. The study also showed the possibility of using the same strategies to affect both customer retention and the growth of the customer's share. Direct mails positively influence customer share development. First, direct mailings can create interest in a (new) service and thereby lead to a final purchase (Roberts and Beiger 1999). Second, the personalization afforded by direct mailings may increase perceived relationship quality, because customers are approached with individualized communications that appeal to their specific needs and desired manner of fulfilling them (Lacobucci *et al.,* 2001: Wittink *et al.,* 1999). Third, according to the sales promotion literature, the short term rewards (i.e. price discounts) offered by direct mailings may motivate customers to purchase additional services and thus increase customer share.

Eriksson and Lofmarck (2000) relate customer retention to a general sense of satisfaction that the relationship has fulfilled their demands or increased their profits. Customer retention is also enhanced by the perceived customer trust. According to Sin *et al.,* (2002), in order for firms to maximize its long-term performance in such areas as customer retention, it is obliged to build, maintain and enhance long-term and mutually beneficial relationships with its target customers. Kuria’s (2010) study on relationship marketing strategies among commercial banks in Kenya indicated that the adoption of information and communications technology (ICT) has enhanced customer retention and customer loyalty in banks. The study respondents opined that technology has played a crucial role in improving customer satisfaction given that customers are handled more efficiently. Essentially, ICT has shortened the services processing duration.

Customer retention has a significant impact on firm profitability. *G*upta *et al.,* (2004) find that a 1% improvement in retention can increase firm value by 5%. Churn refers to the tendency for customers to defect or cease business with a company. Marketers interested in maximizing lifetime value realize that customer retention is a key to increasing long-run firm profitability. A focus on customer retention implies that firms need to understand the determinants of customer defection (churn) and are able to predict those customers who are at risk of defection at a particular point in time. An understanding of the drivers for customer defection can help companies in designing CRM strategies and interventions aimed toward increasing customer loyalty and prolonging the lifetime of customers.

3. Market Share

Relationship marketing theory posits that because effectively committed customers believe they are connected to the firm, they display positive behavior towards the firm. As a consequence, effectively committed customers are less likely to patronize other firms (Dick and Basu, 1994: Mogan and Hunt, 1994: Sheth and Parvatiyar, 1995). In other word, committed customers are more (less) likely to increase (decrease) their customer share for the focal supplier over a period of time. Customer retention has a significant impact on firm profitability. Gupta et al. (2004) find that a 1% improvement in retention can increase firm value by 5%. The theory of double jeopardy proposes that large market share brands have more buyers than small market share brands and that large market share brands are also purchased more often (i.e. have greater habitual buying) by these many buyers (Ehrenberg, Goodhart and Barwise,1990; Fader and Schittlein 1993).

4. Conceptual Framework

As illustrated in Figure 1, it is hypothesized that there exists relationship between each of the foretasted independent variables and the dependent variable. This implies that it is presumed that customer retention influence market share in the sugar sector.

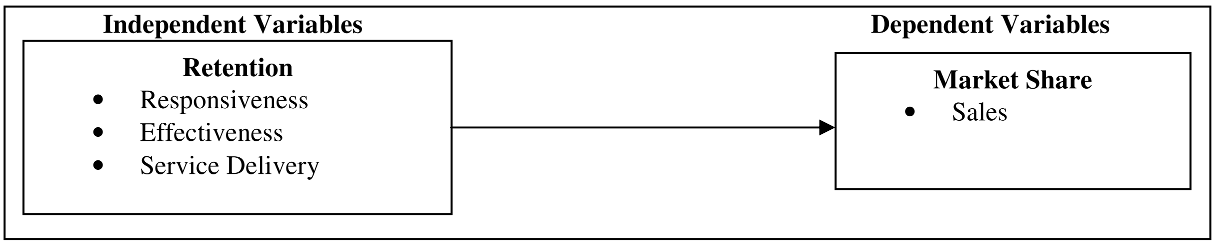

Figure 1: Conceptual Framework

5. Research Methodology

The study adopted the descriptive research design that involves gathering data that describe events and then organizes, tabulates, depicts, and describes the data collection (Glass & Hopkins, 1984). This method was appropriate as it gives a detailed description of the influence of customer relationship management on market share in the sugar sector. Descriptive research is unique in the number of variables employed. Descriptive studies have an important role in educational research as it greatly increases our knowledge about what happens in sugar firms. By involving a broad category of customers, informants, staff and managers, the study fitted within the descriptive survey study designs. The design was also adopted because the population to be studied was too large to be observed directly.

A target population is the populace to which the study findings were generalized (Kothari, 2004). The study population was 116 customers of different categories, 16 sales and marketing staff, and 40 key informants. This study employed stratified random sampling technique. Stratified random sampling is a technique used where a researcher divides the population into homogeneous sub groups and a given number of cases are randomly selected from each population subgroup. It was used to collect focused information from the company customers of different categories including distributors, wholesalers and retailers.

Due to the relatively small size of the sales and marketing staff, a census strategy was adopted where all members of the study population (16 sales and marketing staff) took part in the study. Census method enhances the generalization of the study findings since it eliminates both the sampling bias and sampling error. This study also employed purposive sampling technique to select the informants i.e. managing director, company footballers, warehouse and weighbridge staff, finance department staff and customer truck drivers. Purposive sampling is a technique was used where a researcher decides who to include in the sample based on their typicality. It is used to collect focused information from typical and useful cases only. It was used to concentrate the study only on those members of staff within the company who are engaged in relations activities.

The study employed a structured questionnaire to collect primary data from the respondents. The questionnaire was both structured (closed) and unstructured (open). A questionnaire is a collection of items to which a respondent is expected to react usually in writing. After all data has been collected, the researcher conducted data cleaning, which involved identification of incomplete or inaccurate responses and correct to improve the quality of the responses. The data was coded and entered in the computer for analysis using the Statistical Package for Social Sciences (SPSS V 22). The research yielded both qualitative and quantitative data. Qualitative data was analyzed qualitatively using content analysis based on analysis of meanings and implications emanating from respondents' information and documented data.

Quantitative techniques such as descriptive statistics and inferential statistics used to understand relationships between different variables. The data collected through direct contact questionnaire and were analyzed through descriptive (frequencies, percentages, mean, standard deviation, kurtosis and skewness) and inferential statistics. Pearson product moment correlation was used to establish the relationship between independent and dependent variables. The Pearson product-moment correlation helped the researcher to determine whether there is a significant relationship or association between two variables. Pearson correlation coefficient was used when working with continuous data, in other words, data on the interval or ratio level of measurement.

6. Results

The objective of the study was to establish the influence of customer retention on market share in sugar sector. This was achieved using descriptive and inferential statistics.

7. Market Share

During the study the dependent variable was the market share among the sugar firms. The respondents were requested to establish the extent they agree or disagree with statements relating to the market share in the sugar sector. From the study, the mean of each statement explaining market share characteristics was computed from a five point Likert scale as summarized in Table 1. The descriptive statistics which includes the mean, standard deviation kurtosis and skewness was used to determine the market share in the sugar sector. The overall skewness was -1.647 and kurtosis was 3.35, indicating that the distribution of values deviates from the mean.

	Mean	Std. Deviation	Skew-ness	Kurtosis
Our firm ensures that there is consumers' preference of our product over other similar products.	3.580	0.881	-0.117	0.005
Our company strives to be the market leader in its product by expanding its markets.	3.957	0.865	-1.741	4.483
Our firm expands the market, for its own growth.	4.362	0.840	-1.085	0.207
Our firm cost of acquiring market share is more than the profit from that incremental gain	2.841	0.918	-0.026	0.430
Our high level of service quality leads to increase in market share and lower customer switch-offs.	3.638	1.272	-0.871	-0.164
Our small increase in customer retention produces a dramatic and positive effect on profitability	3.913	0.853	-1.148	2.548
In our firm there is a positive relationship between customer loyalty and profitability.	4.000	0.840	-0.766	1.118
Our firm customer loyalty has become the determinant element that influences the enterprise’s long-term profits.	4.044	0.865	-0.507	-0.548
In our firm customer loyalty is meaningful in measuring market share.	4.000	0.840	-0.613	0.731
In our company, CRM has a positive impact on sales growth and market share.	4.391	0.911	-1.951	4.371
Mean	*3.8725*	*.50348*	*-1.647*	*3.350*

Table 1: Descriptive Statistics of Market share

From the study most of the respondents agreed that their firm ensured that there is consumers' preference of our product over other similar products, since the mean was 3.58 and standard deviation of .881. This indicates that the firm had ensured that there is consumers' preference of their product over other similar products**.** **Majority** of the respondents (mean =3.957) agreed that the company strives to be the market leader in its product by expanding its markets. This implied that the company had strived to be market leader in its product by expanding its markets**.** From the study most of the respondents agreed (mean =4.362) that their firm expands the market, for its own growth. This indicates that the firm had expanded the market, for its own growth.

Most of the respondents were undecided that their firm cost of acquiring market share is more than the profit from that incremental gain, since the mean was 2.841 and standard deviation of .918. This indicates that the firm had ensured that the firm cost of acquiring market share is more than the profit from that incremental gain**.** **Majority** of the respondents (mean =3.638) agreed that the high level of service quality led to increase in market share and lower customer switch-offs. This implied that the high level of service quality leads to increase in market share and lower customer switch-offs**.** From the study most of the respondents agreed (mean =3.913) that a small increase in customer retention produces a dramatic and positive effect on profitability. This indicates that an increase in customer retention produced a dramatic and positive effect on profitability.

Most of the respondents agreed that their firm cost of acquiring market share is more than the profit from that incremental gain and customer loyalty was meaningful in measuring market share, since the mean was 4.00. This indicates that the firm cost of acquiring market share was more than the profit from that incremental gain and customer loyalty was meaningful in measuring market share**.** **Majority** of the respondents (mean =4.04) agreed that the customer loyalty has become the determinant element that influences the enterprise’s long-term profits. This implied that the firm customer loyalty has become the determinant element that influences the enterprise’s long-term profits**.** From the study most of the respondents agreed (mean =4.391) that CRM has a positive impact on sales growth and market share. This indicates that CRM has a positive impact on sales growth and market share. From the 10 statements used to explain market share characteristics at sugar sector had an overall mean score of 3.8 indicating that respondents agreed on its performance. This implies that the market share was highly rated among the respondents. This agrees with Verhoef, 2003, that both the customer's desire to extend his/her relationship with the institution and his reliance on the customer-loyalty programs positively affects customer retention and the growth of the customer's share.

8. Customer Retention

The respondents were requested to establish the extent they agree or disagree with statements relating to the customer retention in the sugar sector. From the study, the mean of each statement explaining customer retention characteristics was computed from a five point Likertscale as summarized in Table 2. The overall skewness was -0.897 and kurtosis was 0.007, indicating that the distribution of values does not deviates much from the mean. From the study most of the respondents were undecided that their firm uses a key objective of relationship marketing, with a mean was 3.21. This indicates that the firm used a key objective of relationship marketing, because of its potential in delivering superior relationship economics**.**

	Mean	Std. Deviation	Skewness	Kurtosis
Our firm uses a key objective of relationship marketing, because of its potential in delivering superior relationship economics.	3.217	0.872	0.241	0.054
It cost less to retain than to acquire new customers in our company.	4.087	0.966	-1.488	2.760
In our firm, acquiring new customer involves costs and the results may be not encouraging.	3.406	1.180	-0.238	-0.612
Retaining existing customer ensure fixed amount of revenue for our firm each month.	2.928	0.810	-0.207	1.988
Our firm ensures retention of customers in order to reduce the cost of acquiring new customers.	4.159	0.964	-1.140	1.363
Our firms ensure that our existing customers are satisfied thus long term relationship is maintained.	4.362	0.985	-2.029	4.299
Customer retention plays a critical role within CRM strategy in our company	4.000	0.907	-0.973	1.031
Our customers will continue to be loyal to our firm when they feel and realize that better value is being offered.	3.812	0.845	-0.981	2.129
Our firms have devoted much attention and effort to attracting new customers rather that retaining existing ones.	2.275	1.199	0.762	-0.165
Our firm emphasizes more on making sales rather than building relationship on pre-selling and selling rather than caring for the customers.	2.319	1.105	0.139	-1.078
Our customers are retained if our firm service quality and satisfaction are improved.	3.420	1.181	-0.659	-0.321
Mean	*3.4532*	*.45092*	*-.894*	*.007*

Table 2: Descriptive Statistics of Customer Retention Characteristics

Majority of the respondents (mean =4.09) agreed that the cost less to retain than to acquire new customers in their company. This implied that the company cost was less to retain than to acquire new customers**.** From the study most of the respondents were undecided (mean =3.41) that their firm acquiring new customer involves costs and the results may be not encouraging. This indicates that the firm had acquired new customer involved costs and not encouraging. Most of the respondents were undecided that their firm retaining existing customer ensured fixed amount of revenue for each month, with a mean was 2.93. This indicates that the firm had retained existing customer to ensure fixed amount of revenue each month**. Majority** of the respondents (mean =4.16) agreed that the firm ensure retention of customers in order to reduce the cost of acquiring new customers. This implied that the firm ensured retention of customers in order to reduce the cost of acquiring new customers**.**

From the study most of the respondents agreed (mean =4.36) that a firms ensure that existing customers are satisfied thus long term relationship is maintained. This indicates that firms ensured that existing customers were satisfied and the long term relationship was maintained. Most of the respondents agreed that their firm customer retention plays a critical role within CRM strategy in the company, with a mean of 4.00. This indicates that the firm Customer retention played a critical role within CRM strategy**. Majority** of the respondents (mean =3.81) agreed that the customers continues to be loyal to the firm when they feel and realize the better value being offered. This implied that the customers continue to be loyal to the firm when they feel and realize the better value being offered**.**

From the study most of the respondents disagreed that firms had devoted much attention and effort to attracting new customers rather that retaining existing ones (mean=2.28) and firm emphasizes more on making sales rather than building relationship on pre-selling and selling rather than caring for the customers (2.32). The respondents were undecided that customers are retained if our firm service quality and satisfaction are improved (3.42). This indicates that the firm had not devoted much attention and effort to attracting new customers rather that retaining existing ones as well as emphasized more on making sales rather than building relationship on pre-selling and selling rather than caring for the customers**.**

From the 11 statements used to explain customer retention characteristics at sugar sector had an overall mean score of 3.45 indicating that respondents agreed on. This implies that the customer retention was averagely rated among the respondents. This concurs with Menon and O'Connor (2007) that customer retention is the longevity of a consumer's relationship with a firm. Organizations are setting themselves strategies to ensure customer retention, and changing their employees to be more customer-focused and service-oriented (Mohsan *et al.,* 2011).

9. Correlation on the Influence of Customer Retention on Market Share in Sugar Sector

Pearson Product Moment Correlation Coefficient was used to establish the influence of customer retention on market share in sugar sector as summarized in Table 3. There was a positive relationship between the customer retention and market share (r=.615, n=69, p<.05). This indicated that an increase in customer retention the market share in sugar sector improved. There is significant relationship between customer retention and market share in sugar firms. This agrees with Gupta *et al.*, (2004) that a 1% improvement in retention can increase firm value by 5%. This finding agrees with Sin et al. (2002), that in order for firms to maximize its long-term performance in such areas as customer retention, it is obliged to build, maintain and enhance long-term and mutually beneficial relationships with its target customers.

		Market share	**Retention**
Market share	Pearson Correlation	1	.615**
	Sig. (2-tailed)		.000
Retention	Pearson Correlation	.615**	1
	Sig. (2-tailed)	.000	

Table 3: Influence of customer retention on market share in sugar sector
***. Correlation is significant at the 0.01 level (2-tailed)*
b. Listwise N=69

From the findings it was found that an increase in customer retention in sugar sector leads to the more market share. This shows that customer retention is one of the CRM factor influencing market share in sugar sector. The findings agree with Izquierdo *et al,* (2005) the process of developing customer relationship consist of activities aimed at customer acquisition, customer retention (in order to keep the customer in company's portfolio) and maintaining customer relationship. Customer retention has a significant impact on firm profitability.

10. Conclusion

The sugar firm ensures retention of customers in order to reduce the cost of acquiring new customers. This was attained through making existing customers were satisfied and the long term relationship was maintained. The firm Customer retention played a critical role within CRM strategy **and** customers continue to be loyal to the firm when they feel and realize the better value being offered**.** There was a positive relationship between the customer retention and market share.

11. Recommendation

1. There is need for the sugar firms to devote much attention and effort in retaining existing ones rather than attracting new customers.
2. The sugar firms should also emphasize more on building relationship and caring for the customers rather than making sales**.**

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