

## Effect of Focus Strategy on the Performance of Small Scale Businesses in Maiduguri Metropolis

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### Abstract

*Adopting one of the three of Porter's generic strategies will help the organization to achieve favorable position in the market place. The study examines the effect of focus strategy on the performance of small scale businesses in Maiduguri Metropolis. Past studies have observed the effect of focus strategy on the performance of telecommunication industry in Port Harcourt, however focus strategy in relation to performance of small scale businesses in Maiduguri Metropolis have received little scholarly attention in. A sample of three hundred and twenty (320) was obtained using the Taro Yamane formular from the total population of one thousand five hundred and ninety five (1595). It was found in this study that there is a significant positive effect of niche strategy on business performance which is not a problem inhibiting performance and it was also found that there is a negative significant effect of low cost strategy on business performance which accounts for the major cause of the lack of performance of small scale businesses in Maiduguri Metropolis. The following recommendation were made; That owners of small scale businesses should carve out a particular market niche to target and position their market offerings in the mind of their prospective customers more than the way their competitors do, and owners of small scale businesses should try to achieve low cost i.e produce quality products compared to that of their competitors as it is an essential variable in achieving a favourable position in the market place.*

**Keywords:** Focus Strategy, Small Scale Businesses and Performance

### Introduction

#### Background to the Study

Business organizations in the past enjoyed a relatively stable environment and at such their environment at that time did not pose so many problems to them like it is now. The environment of business firms were characterized by many firms trying to satisfy their immediate environment and at such, their problems were peculiar to their vicinity, in order words, every organization in a particular location will tend to have similar problems and such like.

The current environment of firms, however, is faced with so much volatility that firms and entrepreneurs need to be on their toes thinking outside the box by strategizing and re-strategizing to gain competitive advantage over other business organizations that operate in the same industry with them. This is because of the fact that there has been a rapid increase in the number of firms that do businesses, and other factors to be considered (Ottih, 2000).

In today's competitive business environment, organizations must map out their plans on how to sustain their business performance, their competitive advantage and increase their

probability. Thompson, Strickland and Gamble (2007) argued that the main objective of any strategy in an organization is to improve its financial performance, strengthen its competitive position and to outdo its rivals. To obtain effective firm performance within the scope of sustainable competitive advantage, decisions on shaping firms' competitive strategies will be one of the main issues for organizations.

Therefore, focus strategy whether anchored in a low-cost base or differentiation base attempts to attend to the needs of a particular market segment (Pearce and Robinson, 1997). It rests on the premise that a firm is able to serve its narrow strategic target more effectively or efficiently than competitors who are competing more broadly. As a result the firm achieves either differentiation from better meeting the needs of the particular target market or lower costs in serving this market or even both (Porter, 1998).

**Statement of the Problem**

Small scale businesses serve as the backbone of most developing economies and their contribution is significant but despite its significance, it has been observed that most small scale businesses in Maiduguri Metropolis are faced with the failure to perform, the failure to perform among these small scale businesses can be largely attributed their focus strategy. The alarming rate of the failure of these businesses to perform is a major concern, hence the need to assess their market focus strategy in relation to performance.

A study by Akintokunbo (2018) examine the effect of focus strategy on organizational performance of telecommunication companies in Port Harcourt. However focus strategy in relation to the performance of small scale businesses have received little scholarly attention in Maiduguri Metropolis and it is in line with this that the study examine the effect of focus strategy on the performance of small scale businesses in Maiduguri Metropolis.

**Research Questions**

- i. What is the effect of focus strategy on the performance of small scale businesses in Maiduguri Metropolis?

**Research Hypotheses**

H<sub>01</sub>: focus strategy does not significantly affect the performance of small scale businesses in Maiduguri Metropolis.

The paper is significant to students and other researchers in their research endeavour, it is also significant to policy makers for the purpose of policy formulation and implementation it is also useful to owners of small scale businesses and potential entrepreneurs prior to the development of an entrepreneurial venture. The study covers all the owners of small scale businesses in Maiduguri Metropolis.

**Literature Review****Market Focus Strategy**

The focuser's basis for competitive advantage is either lower costs than competitors serving that market segment or an ability to offer niche members something different from competitors. Focusing is based on selecting a market niche where buyers have distinctive preferences. The niche is defined by geographical uniqueness,

specialized requirements in using the product or by special attributes that appeal to members, (Stone, 1995).

A focus strategy based on low cost depends on there being a buyer segment whose needs are less costly to satisfy than the rest of the market. On the other hand, a focus strategy based on differentiation depends on there being a buyer segment that demands unique product attributes. In the focus strategy, a firm targets a specific segment of the market (Porter, 1996). The firm can choose to focus on a select customer group, product range, geographical area, or service line (Martin, 1999). For example, some service firms focus solely on the service customers (Stone, 1995). Focus also is based on adopting a narrow competitive scope within an industry.

Focus aims at growing market share through operating in a niche market or in markets either not attractive to, or overlooked by, larger competitors. These niches arise from a number of factors including geography, buyer characteristics, and product specifications or requirements. A successful focus strategy (Porter, 1980) depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors. Market penetration or market development can be an important focus strategy. Midsize and large firms use focus-based strategies but only in conjunction with differentiation or cost leadership generic strategies.

**Organizational Performance**

Firm's performance is the measure of standard or prescribed indicators of effectiveness, efficiency and environmental responsibilities such as cycle time, productivity, waste reduction and regulatory compliance (Noum, 2007). The organizational performance construct is probably the most widely used dependent variable, in fact, it is the ultimate dependent variable of interest for any researchers concerned with just about any area of management yet it remains vague and loosely defined (Richard et al, 2009; Rodgers and Wright, 1998). The construct has acquired a central role as the deemed goal of the modern industrial activity. Performance is so common in management research that its structure and definition are rarely explicitly justified; instead, its appropriateness, in no matter what form is

unquestionably assumed (March and Sutton, 1997).

### **Niche Strategy**

Marketing in the age of diversity means “changing company structure as large corporations continue (to become niche marketers) to compete with smaller niche player (who) expert at their markets. According to Parrish, Cassill, & Oxenham, (2006) niche marketing as the splitting of traditional markets into smaller segment and then planning distinct marketing programs for each of these niches. The literature recognizes niche marketing as primarily a defensive strategy which is more successful when the firm is able to implement a strategic initiative to reduce competition in the market place. Marketing strategy is the outcome of a firm’s segmentation, targeting, and positioning choices (STP process) at the level of the Strategic Business Unit. According to Toften, & Hammervoll, (2007) Firms prefer to specialize and adapt their production to the needs of narrow markets, and emphasizing the importance of territory, appellation and geographical identity to increase product quality. This latter approach, typically characterized by specialization, constricted markets and long term relationship, is often termed as niche marketing strategy (Dalgic & Leeuw, 1994, Gungaphul & Boolaky, 2010)

Niche marketing strategy has been applied to a variety of industries, products and services over the last decade, such as food products, wine and beer, retailing, tourism, airline travel, fashion textile and apparel, (Toften Hammervoll, 2012, Parrish, Cassill & Jones, 2004).

Chemical industry, banking and to accounting services. According to Toften (2012) The main advantages of niche marketing is that the firm has a much smaller customer base, and therefore gets to know the customer very well, which makes the company much more able to satisfy the customer and in the process build loyalty and the potential for additional sales. (Accoding, Gillin & Schwartzman, 2010).

Niche marketing strategy can be attained by concentrating on a particular buyer group, segment of the product line or geographic. According to Dalgic, (1998) The author further added that niche marketing strategy can be working for the following reasons: to avoid competition/confrontation with larger entrants, to dedicate its energy to serving a unique market, to boost on an opportunity, and

survival. Most important the niche strategy is the knowledge of customer that drives the niche strategy; by understanding and serving the needs of niche market better than any other firms, awareness of the customers helps to safeguard the customers’ loyalty (Allen, 2006).

### **Low Cost Strategy**

Low cost strategy is an integrated set of action taken to produce goods or services with features that are acceptable to customers at the lowest cost, relative to that of competitors (Ireland, et. al, 2011). Low cost strategy also tends to be more competitor oriented rather than customer oriented (Frambach, et. al, 2003). Porter (1980), posit that a firm that successfully pursues low cost strategy emphasizes vigorous pursuit of cost reduction, tight cost and overhead control, research and development and advertisement among others to achieve a low cost position.

Sources of cost advantage depend on industry structure. Cost advantages may come from economies of scale, economies of scope, propriety technology, and preferential access to materials among other factors. With cost advantages, firms are able to have above-average return or can command price. Grant (2005) argues that common to the success of Japanese companies in consumer goods industries such as cars, motorcycles, consumer electronics, and musical instruments has been the ability to reconcile low cost with high quality and technological progressiveness.

This position is further supplemented by Barney and Hesterley (2006) who affirm that few layers in the reporting structure; simple reporting relationships, small corporate staff, and focus on narrow range of business functions are elements of organizational structure that allow firms to realize the full potential of cost leadership strategies. It is important to note however, that a company might be a cost leader but that does not necessarily imply that the company's products would have a low price. In certain instances, the company can for instance charge an average price while following the low cost strategy and reinvest the extra profits into the business Lynch (2003). The risk of following the low cost strategy however, is that the company's focus on reducing costs even sometimes at the expense of other vital factors may become so dominant that the company loses vision of why it embarked on one such strategy in the first place.

### Empirical Review

Khaled (2012) investigated the relationship between differentiation strategy and organizational performance. To investigate this relationship, 33 industrial companies listed at Amman Stock Exchange by the beginning of 2010 were surveyed. Industrial companies listed at Amman Stock Exchange were surveyed. The result of multiple regression analysis indicated that the differentiation strategy had no significant influence on organizational performance of such companies. One important practical implication of this result was that the Jordanian companies should incorporate the different dimensions of product differentiation strategy correctly to improve their performance. Asikhia (2010) studied market-focused strategic flexibility as one survival strategy needed. In order to investigate these issues, the research instrument, a questionnaire, was distributed to the chief executive officers and marketing managers of five hundred firms in Nigeria. A 58.4% response rate was achieved. The psychometric properties of the instrument showed it to exhibit a good fit with the model. The data was then analyzed and tested using factor analysis, correlational and regression analysis. The overall results suggested that market-focused strategic flexibility is a driver of organizational positioning in a dynamic environment, and it is also found to moderate the market orientation sales growth relationship studied and environmental variables influence its relationship with sales growth in most firms. The results also established that while firms operating in a dynamic environment may gain advantage by adopting market-focused strategic flexibility, firms operating in a relatively stable environment dynamic environment adopt market-focused strategic flexibility, they are not likely to achieve competitive advantage.

### Theoretical Framework

#### *Porter's Generic Competitive Strategies*

A company's relative position within its industry identifies whether a company's profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is sustainable competitive advantage. There are two basic types of competitive advantage a

company can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a company seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry: cost leadership (no frills), differentiation (creating uniquely desirable products and services), and focus (offering a specialized service in a niche market) (Porter, 1998).

### Methodology

The study was carried out in Maiduguri Metropolis, where a total of one thousand five hundred and ninety five small scale businesses were registered in Maiduguri Metropolis. Taro Yamani's formula was used in determining the size of the study.

$$n = \frac{N}{1 + N(e)^2}$$

$$n = \frac{1595}{1 + 1595(0.05)^2}$$

$$n = 320$$

Where n is sample size, N (1595) is the population size, and e (0.05) is the level of significance. Simple random sampling was used to select owners of registered small scale businesses within Maiduguri Metropolis. Survey method was used to collect data from owners of small scale businesses; this involves the use of structured questionnaire as an instrument for data collection. The questionnaire will be arranged based on a five point Likert scale, that is from strongly agreed (SA), agree (AG), undecided (UD), disagree (DA) and strongly disagree (SD).

### Results, Summary, Conclusions and Recommendations

A total of 320 questionnaires were distributed and were retrieved for analysis. The analysis were done on the basis of the valid questionnaire as data retrieved were computed using the statistical package for social sciences (SPSS) version 21. Multiple regression analysis was used to test the hypothesis formulated.

**Table 1. Effect of Niche Strategy on Business Performance**

		Frequency	Percent	Cumulative Percent
Valid	SA	76	19.4	19.4
	A	120	37.0	56.4
	U	10	3.6	60.0
	D	111	39.1	99.1
	SD	3	9	99.7
	Total	320	100.0	100.0

Source: Field Survey, 2019.

Table 1 shows that a total of 120 respondents representing 37% agreed that niche strategy is not a problem to small scale businesses. 65 respondents representing 19.4% strongly Agreed, 10 of the respondents representing 3.6% were undecided, while 111 and 3

respondents representing 39.1% and 0.9% disagreed and strongly disagreed respectively. This indicates that majority of the respondents disagreed that niche strategy is a major problem affecting the performance of their businesses

**Table 2. Effect of Low Cost Strategy on Business Performance**

		Frequency	Percent	Cumulative Percent
Valid	SA	59	14.6	14.6
	A	66	20.6	35.2
	U	23	7.8	43.0
	D	160	53.7	96.7
	SD	11	3.3	100.0
	Total	320	100.0	

Source: Field Survey, 2019.

Table 2. Shows that a total of 48 respondents representing 14.6% strongly agreed, and sixty six respondents representing 20.6% agreed. Twenty- three respondents representing 7.8% were undecided, while 160 respondents representing 53.7% strongly disagreed this indicates that low cost strategy is major cause of

the lack of performance, while 11 respondents representing 3.3% strongly disagreed. This indicates that majority of the respondents agreed that low cost strategy is a major cause of lack of performance among small scale businesses in Maiduguri Metropolis.

### Summary of the Effect of Multiple Regression Analysis of Niche Strategy and Low Cost Strategy on the Performance of Small Scale Businesses in Maiduguri Metropolis

Source	SS	df	MS	Number of obs = 320
				F (3, 320) = 1660.14
Model	3334.2692	3	1111.42307	prob > = 0.0000
Residual	253.730803	379	.669474415	R-squared = 0.9293
				Adj R-squared = 0.9287
Total	3588	382	9.39267016	Root MSE = .81821

  

Y1	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
x1	.1992144	.0146146	13.63	0.000	.1704786 .2279503
x2	.0417269	.0177577	2.35	0.501	.006811 .076642

#### Findings

The following decisions were found;

- Majority of the respondents disagreed that niche strategy is a critical problem affecting the performance of their businesses. There is a significant positive effect of niche strategy on the performance of small scale businesses in Maiduguri Metropolis a P-Value of 0.000 significant was obtained which is highly less than 0.5
- Majority of the respondents agreed that low cost strategy is a major problem affecting performance. There is a negative significant effect of low cost strategy on the performance of small scale businesses in Maiduguri Metropolis. A p-value of 0.501 was obtained.

#### Discussion of Findings

It was found in this study that there is a significant positive effect of niche strategy on the performance of small scale businesses, the study findings is not in line with the finding of a study by Khaled (2012) investigated the relationship between differentiation strategy and organizational performance. The result of multiple regression analysis indicated that the differentiation strategy had no significant influence on organizational performance of such companies.

It was also found that there is a negative significant effect of low cost strategy on business performance this study findings is not in agreement with the study findings of Asikhia (2010) studied market-focused strategic flexibility as one survival strategy needed. The overall results suggested that market-focused

strategic flexibility is a driver of organizational positioning in a dynamic environment, and it is also found to moderate the market orientation sales growth relationship studied and environmental variables influence its relationship with sales growth in most firms. The results also established that while firms operating in a dynamic environment may gain advantage by adopting market-focused strategic flexibility, firms operating in a relatively stable environment dynamic environment adopt market-focused strategic flexibility, they are not likely to achieve competitive advantage.

#### Conclusions

The overall conclusion from the study was that niche strategy of these small scale businesses is not the critical problems inhibiting performance. On the other hand, majority of the responses from the owners of small scale businesses indicates that the inability of the business owners to adopt low cost strategy accounts for the major cause of the failure of these businesses to perform.

#### Recommendations

The following recommendations were made;

- That owners of small scale businesses should carve out a particular market niche to target and position their market offerings in the mind of their prospective customers more than the way their competitors do.
- Owners of small scale businesses should try to achieve low cost i.e produce quality products compared to that of their competitors as it is an essential variable in achieving a favourable position in the market place.

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