International Journal of Economics, Commerce and Management
United Kingdom Vol. V, Issue 12, December 2017
http://ijecm.co.uk/ ISSN 2348 0386

EFFECTS OF CONCENTRIC DIVERSIFICATION STRATEGIES ON GROWTH OF COSMETIC FIRMS IN NAKURU COUNTY, KENYA

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Abstract

Diversification enhances firm performance and shareholder value. This study assessed the effects of concentric diversification strategies on the growth of the cosmetic firms in Nakuru County. The objectives were Product and market diversification. Descriptive research design was adopted with a target population of 210 cosmetic firm owners. 68 participants were randomly sampled and administered with semi-structured questionnaires. Collected data was analyzed using descriptive and inferential statistics. Findings established that offering unique products enhances competitive advantage (mean=4.486), cosmetic product features determines differentiation level (mean=4.086), market penetration and competition have drastically increased (mean=4.571), cosmetic firms regularly adopt new strategies because of uncertainty (mean=3.657), cosmetic firms have not invested adequately on innovation (mean=3.486), functional diversification vary because of strategic differences (mean=3.829). The study established significant relationships between product diversification (r=0.608), market diversification (r=0.713) and growth of cosmetic firms. The study concluded that related diversification increases growth of cosmetic firms, offering unique products enhances competitive advantage, diversifying into new lines gains new market share, cosmetic firms are always adopting new diversification strategies. Thus, cosmetic firms *should focus more on diversifying into related product lines; risk analysis should be conducted before implementing market diversification, follow ups and after sales services should be boosted.*

Keywords: Diversification; Concentric; Product; Market; Cosmetic; Firm; Growth; Strategies; Risks; Customer: Share: Competition: Price

INTRODUCTION

Diversification is a corporate strategy which aims to expand or grow a firms' operation by adding markets, products, services, or stages of production to the existing business. Diversification allows a company to enter lines of business that are different from their current operations. Moreover, diversification uses two approaches: either concentric or conglomerate diversification. Concentric diversification occurs when a firm acquires similar business options while conglomerate diversification occurs when a firm develops products or services beyond its current capabilities. Further, firms choose to diversify in order to provide channels for growth, profits and employment. However, diversification is affected by high investment costs and environmental changes. Moreover, diversification is a way of reducing risk by investing in a mixture of assets or business ventures (Zhou, 2008). Besides, diversification is the venturing out by a firm into new business, new products or new markets to increase profits.

As well, diversification is also the venturing of a firm into new lines of activity and businesses through a process of internal development that entails changes in the prevalent administrative systems (Hitt, Hoskisson & Kim, 2013).The main purpose of diversification is to allow an organization to grow (Thomas & Mason, 2006). Diversification strategies require new skills, new techniques and new facilities. In the USA, 3M Company of Minnesota implemented diversification through various innovation strategies and became among the top ten most innovative companies worldwide (Trott, 2014). Further, IBM also successfully pursued diversification in a purposeful and vigorous manner (Strategic Direction, 2005). This had a positive influence on the performance of IBM due to economies of scope and scale, market power effects, risk reduction effects and learning effects.

Moreover, in German banks, diversification has been coupled with reductions in bank revenues even when the risks are controlled (Fang et al., 2011). Besides, only few cases of high risky banks and industrial diversification have had a positive statistically significant relationship between diversification and bank revenues. As well, most of the banks had significantly increased loan portfolio diversifications. In Sweden, banks have managed their loan portfolios by investigating the loan portfolio diversification strategies (David & Dionne, 2005). Similarly, most Japanese firms have shifted their operational focus from developing growth enabling core competencies to reducing organizational costs through diversification (Kiyohiko & Rose, 2008). According to Matsusaka (2010), Chinese firms use related diversification strategies to enable subsidiaries export more products to international markets through their foreign channels and networks. Diversification has also helped local Chinese firms upgrade technological skills and managerial expertise. Moreover, diversification does pose various challenges at the strategic level because businesses often fail to consider the problems associated with diversification (Villalonga, 2004).

Likewise, diversification is considered a success when it adds to shareholder value and takes the organization away from its current markets, increases product diversity and profitability (Maurice & Thomas, 2011). Nevertheless, moving out of current products and current markets represents a step into the unknown (Lynch, 2006). This uncertainty carries a higher degree of business risk. Further, with diversification, there is limited knowledge of the new services and markets that make the accurate predictions of diversification success levels very difficult. Product Diversification can occur due to various reasons. Palmer (1998) lists some of the causes as follows. When a product has reached its maturity phase of its lifecycle and it is heading to decline, a new product may be sought to maintain the sales level. This occurs to make the organization remain relevant. Secondly a new product may be developed as a way of maximizing on the available capacity. Institutions may also develop a new product to balance the existing portfolio, reducing the risk of depending on few products hence reducing risk. It also reaches a point where clients need to be kept and make them obtain loyalty.

Most diversification strategies fail to deliver value and that majority of successful companies achieve their growth by expanding into logical adjacencies that have shared economies and not from unrelated diversifications (Allen, 2001).In Nigeria, Ofori and Chan (2000) identified diversification as one of three business growth paths apart from concentration and acquisition. In order to develop strong strategic capabilities, a firm needs to have three types of flexibilities: market flexibility, production flexibility and competitive flexibility (Hammond, 2003).

Cosmetic Industry in Kenya

Cosmetic industry in Kenya falls under fast moving consumer goods (FMCG) industry which is an important sector which makes a substantial contribution to the economy. According to the Flame Tree Group's annual report (2014), Kenya's color cosmetics market is estimated to be worth Kshs.5.4 billion and is expected to grow to Kshs. 6.6 billion by 2018. The cosmetics manufacturing division accounted for 74% of the Flame Tree Company's portfolio with the rest going to the trading arm. The beauty and cosmetics industry has become Kenya's new hub of investment that is pulling in huge investments to establish new lines of business and to snap up successful enterprises through multi-million shilling acquisition deals. The Suzie Beauty was taken over barely two years after French beauty and cosmetics giant L'Oreal acquired Nice and Lovely range of products from startup Inter-Consumer in a deal worth more than Kshs.1.5 billion. The risk paid off when the company clocked 40 million units in sales after the acquisition up from just 2 million the year before. The cosmetics market has also been fired up by Procter and Gamble's (P&G) 2014 launch of a range of products targeting the mass market. This introduced the Camay brand of cosmetics in the Kenyan market and turned the heat on existing players such as Unilever, Cussons PZ and L'Oreal.

Proctor and Gamble contended that its decision to launch its own brand of deodorants, beauty soap, body lotion and fragrance was informed by an in-house research that identified "a gap" in the Kshs.100 billion market in 2014.The potential of the cosmetic market is growing due to improving levels of education, youthfulness of the population and the rise of female independence (KPMG, 2014). This has also been prompted by the increasing presence of women in the labour market and the decline in fertility rates implying more money is becoming available for spending on personal care products. KPMG estimates the Kenyan beauty and personal care products market to have been worth $260 million (Kshs. 26 billion) in 2011meaning it grew by 14.8% each year for five years to hit Kshs.100 billion in 2015. The level of growth in cosmetics has also caught the attention of retailers like Nakumatt Holdings which invested heavily in the cosmetic market and is currently selling 36,472 units estimated to be worth Sh36.8 million annually. Nakumatt Beauty which was launched in 2013 signed an exclusive acquisition franchise deal with New York-listed Revlon cosmetics.

Nakumatt has since invested Kshs.100 million ($1 million) to market Revlon. It has also diversified the range of other cosmetic products. Nakumatt capitalized on the huge interest women have in hair products and aspiration to look good. Further, Lintons, a beauty products retailer has signed a number of deals with international brands because of demand for high quality cosmetics in the Kenyan Market.High-end international brands in Kenyan malls includes MAC which now has two stores, Yves Saint Laurent, Clarins, Estée Lauder, Clinique, BlackUp, Essie Nail cosmetics, Black Opal and Nimue, among others. Lancôme, one of the leading cosmetics brand with sales turnover of $4.5 billion, is the latest world-class player to bring its high end skin care, fragrance and makeup products. This has been attributed to growth in the segment as a result of favorable demographic profile and strong economic growth.

Statement of the Problem

Though diversification enables firms to reduce investment risks, venture into new markets, increase product or service diversity and profitability, it portends uncertainty or higher degree of business risks. Similarly, limited knowledge of new products, services and market make accurate predictions of diversification success levels very complicated. Further, diversification face challenges from high investment costs and business environmental changes. As well, moving out of current products and markets represents a step into the unknown for firms. This may distort strategic planning for firms in transferring management skills to new areas of business. Therefore, diversification is a risky corporate strategy for firms because it has a bearing on their core competencies. This may hamper the ability of the firms to create new products, control costs and serve the new markets adequately. However, promising firms may reap from increased efficiency and performance from diversification. Focusing on the rising potential of the cosmetic industry, diversification is both an opportunity and a challenge for firms. The cosmetic market in Kenya is expected to increase by 3.5% to 4.5% by 2020. Further, the color cosmetics sector is expected to grow by 6% between 2016 and 2017. The imports for cosmetic products have grown by 38.5% since 2011. This shows that the cosmetic market potential in Kenya is enormous because of improving levels of education, youthfulness of the population and the rise of female independence class. As a result, cosmetic firms in Kenya are strategizing on how to implement diversification plans. However, while formulating new diversification strategies, some firms often fail to consider problems associated with diversification. Some firms assume their present financial capabilities and diversification costs before delving into costly regional expansion. Additionally, diversification has not necessarily resulted in high performance. It's therefore imperative to assess present firm strengths and competencies while planning for diversification. In Kenya, a number of studies on strategy diversification have covered oil companies, Nation Media Group and banking industry. No study has focused on the effects of diversification on growth of cosmetic firms in Kenya hence the basis for conducting this study.

General Objective of the Study

The study assessed the effects of concentric diversification strategies on growth of Cosmetic firms in Nakuru County.

Specific objectives of the Study

i. To determine the effect of product diversification strategies on growth of cosmetic firms in Nakuru County.

ii. To establish the effect of market diversification strategies on growth of cosmetic firms in Nakuru County.

Research Hypotheses

i. **H_o**: There is no significant relationship between product diversification strategies and the growth of cosmetic firms in Nakuru County.

ii. **H_o**: There is no significant relationship between market diversification strategies on the growth of cosmetic firms in Nakuru County

Significance of the Study

This study will be of great value to the cosmetic industry by appreciating the role played by product, market and functional integration on growth of their businesses. Other companies in related industries will be able to make appropriate decisions on diversification strategies and their implementation to enhance growth. Cosmetic firms will find the results of the study useful especially on challenges experienced in the adoption and implementations of diversification strategies through their outlets. The managers thus will be able to make appropriate adjustments on their diversification strategies to achieve optimal growth and performance. The study will provide insightful knowledge to regulators and policy makers on the diversification strategies enhancing the growth of the cosmetic industry. The study will also be of paramount help to the cosmetic business owners because any cost inferences which will need to be catered for by customers in exchange for better products and service delivery. Finally, to researchers and academicians, this study will provide future reference material on the similar area of diversification strategies in the cosmetic industry.

Scope of the Study

First, the study was confined to the cosmetic firms and businesses in Nakuru County. Many organizations are focusing on becoming more competitive by launching diversification strategies; the cosmetic industry is equally facing similar challenges in the market. Therefore, this study assessed the effects of concentric diversification strategies on growth of cosmetic firms in Nakuru County. Specifically, the study looked into product diversification and market diversification. Secondly, the study targeted cosmetic business owners to gather as much information as possible. Thirdly, the study was carried out within three months from July to October 2017.

Limitations of the Study

The study concentrated on three variables: product diversification and market diversification. These variables guided the analysis and conclusions. The study did not include other factors hence future scholars may expand to establish how concentric diversification affects growth of cosmetic firms. The study was also faced limitations emanating from non-responsiveness of some participants due to fear of disclosing business information. This challenge was overcome through explanation and assurance that the information provided was for academic purpose and was to be treated confidentially.

LITERATURE REVIEW

Theoretical Review

A theory is a set of statements or principles devised to explain a group of facts or phenomena especially one that has been repeatedly tested or is widely accepted and can be used to make predictions about natural phenomena (Copeland & Weston, 2005). The study adopted Ansoff theory, resource based view theory and Porters' five forces theory.

Ansoff Theory

The work done by Ansoff (1988) provides an appropriate introduction when considering the management theories around diversification. He produced a product/matrix that identified directions for strategic development. The matrix promotes four different strategies informed by whether the strategy direction is in new/existing markets with new/existing products. Apart from diversification, the others are Market penetration in which growth occurs through increased share of existing markets. In addition, market penetration includes the activities that are used to increase the market share of a particular product or service. Market development opportunities occur in markets other than those currently being targeted but with the same product. The overarching aim is to increase profit by selling more existing products in new markets. Product development is adopted when a firm has less than comprehensive products/services in market. In this regard, there must be an awareness of customer requirements and knowledge of gaps in the product/service range. Costs will be attached to developing new services and their resulting promotion. The remaining strategic option is diversification that is represented by new products in new markets which also explains the role of functional diversification on growth of firms.

Diversification strategy occurs when there is a fundamental change in the industry such as when an existing technology is replaced by a new one (van Oijen & Douma, 2000). The emergence of the internet is provided as an example which forces new strategic direction to meet the changing industry condition. Grant (2005) acknowledges that if organizations are to survive and prosper over the long term they must change. Inevitably this change involves redefining the business in which the organization operates. Diversification is important because of the synergy that it creates (Ansoff, 1988; Ensign, 1998). By moving into new areas, opportunities emerge to develop new inter-relationships through the actual process of working on new services and markets. This synergy makes it possible to produce a combined return on resources that is greater than the sum of the parts (Ansoff, 1988). This theory will formulate a basis in explaining the effect of market and product diversification on growth of cosmetic firms.

Resource Based View Theory

The resource-based view theory stipulates that in strategic management, the fundamental sources and drivers to a firm's competitive advantage and superior performance are mainly associated with the attributes of their resources and capabilities which are valuable and costly to copy (Peteraf & Bergen, 2003). Building on the assumptions that strategic resources are heterogeneously distributed across firms and that these differences are stable overtime, Hoopes, Madsen and Walker (2003) examines the link between firm resources and sustained competitive advantage. Four empirical indicators of the potential of firm resources to generate sustained competitive advantage can be value, rareness, inimitability, and non-substitutability. Rugman and Verbeke (2002) argued that to have the potential to generate competitive advantage, a firm's resource must have four attributes: it must be valuable, in the sense that it exploits opportunities and/or neutralizes threats in a firm's environment; it must be rare among a firm's current and potential competition; it must be imperfectly imitable; and there cannot be strategically equivalent substitutes for this resource.

Building of capabilities derives from initial heavy and risky investments which allow firms to exploit the opportunities available for scale and scope (King, 2007). This is true for diversification to be successful especially in the cosmetic industry. According to Rugman and Verbek (2002) the foundations of corporate success are distinctive capabilities i.e. architecture, innovation and reputation. Architecture is the network relationships that define a firm and it's the capacity of firms to one, create and store organizational knowledge and routines. Two, capacity of firms to promote more effective cooperation between members of the firm, three, capacity to achieve an open and easy flow of information between members of the firm and to and from outsiders and lastly capacity to adapt rapidly and flexibly. Reputation is the commercial mechanism for conveying information to consumers about product quality. Investing in and selling on reputation is saying in effect; a firm has a lot to lose if it fails to satisfy. Eisenhardt and Martin (2001) addressed the issue of generalizing the findings of the RBV in the light of the theory's insistence on firm heterogeneity. This clearly explains the impact of product diversification by firms.

They further argued that since dynamic capabilities have commonalities across firms in terms of key features, they violate the RBV assumption of persistent heterogeneity across firms. It follows that while firms with more effective dynamic capabilities like superior product innovation are likely to have a competitive advantage over firms with less developed capabilities, dynamic capabilities in themselves cannot be a source of sustained competitive advantage. Like any other firm, cosmetic firms are not immune to dynamic market changes and competitive advantages. Thus, this theory will be useful in elaborating the effects of product and market diversification on the growth of cosmetic firms in this study.

Porters' Five Forces Theory

Porter's Five Forces Framework is a tool for analyzing competition of a business and was postulated by Porter in 1979. The Five Competitive Forces are typically described as follows: The bargaining Power of Suppliers' force: Suppliers comprise all the sources for inputs that are needed in order to provide goods or services. The supplier bargaining power is likely to be high when the market is dominated by a few large suppliers rather than a fragmented source of supply, there are no substitutes for the particular input, the suppliers' customers are fragmented, so their bargaining power is low, the switching costs from one supplier to another are high and there is the possibility of the supplier integrating forwards in order to obtain higher prices and margins. This threat is especially high when the buying industry has a higher profitability than the supplying industry, forward integration provides economies of scale for the supplier, the buying industry hinders the supplying industry in their development (e.g. reluctance to accept new releases of products) and the buying industry has low barriers to entry. In such situations, the buying industry often faces a high pressure on margins from their suppliers. The relationship to powerful suppliers can potentially reduce strategic options for the organization.

Similarly, the bargaining power of customers determines how much customers can impose pressure on margins and volumes. Customers bargaining power is likely to be high when they buy large volumes, there is a concentration of buyers, the supplying industry comprises a large number of small operators, the supplying industry operates with high fixed costs, the product is undifferentiated and can be replaces by substitutes, switching to an alternative product is relatively simple and is not related to high costs, customers have low margins and are price-sensitive, customers could produce the product themselves, the product is not of strategic importance for the customer, the customer knows about the production costs of the product and there is the possibility for the customer integrating backwards.

On the threat of new entrants, the higher the competition in an industry, the easier it is for other companies to enter the industry. In such a situation, new entrants could change major determinants of the market environment (e.g. market shares, prices, customer loyalty) at any time. There is always a latent pressure for reaction and adjustment for existing players in this industry. The threat of new entries will depend on the extent to which there are barriers to entry. These are typically economies of scale (minimum size requirements for profitable operations), high initial investments and fixed costs, cost advantages of existing players due to experience curve effects of operation with fully depreciated assets, brand loyalty of customers, protected intellectual property like patents, licenses etc, scarcity of important resources, e.g. qualified expert staff, access to raw materials is controlled by existing players, distribution channels are controlled by existing players, existing players have close customer relations, e.g. from long-term service contracts, high switching costs for customers and legislation and government action.

A threat from substitutes exists if there are alternative products with lower prices of better performance parameters for the same purpose. They could potentially attract a significant proportion of market volume and hence reduce the potential sales volume for existing players. This category also relates to complementary products. Similarly to the threat of new entrants, the treat of substitutes is determined by factors like brand loyalty of customers, close customer relationships, switching costs for customers, the relative price for performance of substitutes and current trends. Competitive Rivalry between existing Players describes the intensity of competition between existing players (companies) in an industry. High competitive pressure results in pressure on prices charged, margins and hence on profitability for every single company in the industry. Competition between existing players is likely to be high when there are many players of about the same size, players have similar strategies, there is not much differentiation between players and their products, hence, there is much price competition, low market growth rates (growth of a particular company is possible only at the expense of a competitor) and barriers for exit are high (e.g. expensive and highly specialized equipment).

However, Porter’s model of Five Competitive Forces has been subject of much critique. Its main weakness results from the historical context in which it was developed. In the early 1980’s, cyclical growth characterized the global economy. Thus, primary corporate objectives consisted of profitability and survival. A major prerequisite for achieving these objectives has been optimization of strategy in relation to the external environment. At that time, development in most industries has been fairly stable and predictable, compared with today’s dynamics. In the economic sense, the model assumes a classic perfect market. The more an industry is regulated, the less meaningful insights the model can deliver (Brandenburger & Nalebuff, 1995).

The model is best applicable for analysis of simple market structures. A comprehensive description and analysis of all five forces gets very difficult in complex industries with multiple interrelations, product groups, by-products and segments. A too narrow focus on particular segments of such industries, however, bears the risk of missing important elements. The model assumes relatively static market structures. This is hardly the case in today's dynamic markets. Technological breakthroughs and dynamic market entrants from start-ups or other industries may completely change business models, entry barriers and relationships along the supply chain within short times. The Five Forces model may have some use for later analysis of the new situation; but it will hardly provide much meaningful advice for preventive actions. The model is based on the idea of competition. It assumes that companies try to achieve competitive advantages over other players in the markets as well as over suppliers or customers. With this focus, it dos not really take into consideration strategies like strategic alliances, electronic linking of information systems of all companies along a value chain, virtual enterprise-networks or others. Overall, Porters Five Forces Model has some major limitations in today's market environment. It is not able to take into account new business models and the dynamics of markets.

The value of Porters model is that it enables managers to think about the current situation of their industry in a structured, easy to understand way as a starting point for further analysis. In this study, this model will elaborate the effects of product diversification, market diversification and functional integration on the growth of cosmetic firms particularly in the dynamic and competitive environment. For instance, the framework explains the impact of customers switching from one product to another in the same industry. It further explains that competition in the market is dynamic which requires companies in the industry to be keen on the strategies they should adopt to survive in such markets.

Empirical Review

This section reviewed the relevant literature on the study variables to establish the research gaps. The literature review covered product diversification strategies, market diversification strategies and the conceptual framework linked the independent and dependent variables of the study.

Product Diversification Strategies

A good deal of diversification strategy in practice involves building relationships with existing markets and products (Johnson & Whittington, 2008). Berger and Ofek (2010) in their study on diversification effect on firm value describe diversification as the entry of a firm into new lines of activity through a process of internal development. Any modification of a current product that serves to expand the potential market implies that the company is following a strategy of product diversification. A study conducted by Hitt, Hoskisson and Kim (2011) shows that firms that have diversified into products that use the existing internal resources or capabilities benefits from economies of scale and earn higher returns. The payoff created by diversification may be magnified when multi-national corporations capitalize on economic rents derived from product and market diversity. They also gain from various advantages embodied in foreign activities such as knowledge acquisition, capability development, risk reduction and complementary synergies.

Furthermore, Luo (2009) adds that such synergies from product diversification are more likely to be realized when firms expand into related lines of business or industries. Product differentiation strategies focus on the quality and design of the product to create a perception that there are no substitutes available on the market. Although competitors may have a similar product, the differentiation strategy focuses on the quality or design differences. In this case, a business gains an advantage in the market as customers view the product as unique (Flyvbjerg, 2011). Furthermore, product related diversification emphasizes on operational synergy that enables a firm to benefit from economies of scale.

According to Tavana (2014), some firms may seek to diversify from a proactive approach when it spots opportunities for expansion into industries whose technologies complement its present business. It can also leverage existing capabilities by expanding into other businesses, diversifying into related businesses as an avenue for cost reduction. Such firms have a very powerful brand name that can be used to drive up sales. A firm can also diversify into a closely related business or move into a completely new business that is not related to the current operations (Schindler & Cooper, 2008). According to Kinyanjui, (2012), diversification through differentiation strategy aims to build up competitive advantage by offering unique products characterized by valuable features such as quality, innovation and customer service. This enables the firm earn above average returns by defending it against competitive forces of substitute products, rivalry in the industry and threat of new entrants due to the brand loyalty it commands (Gachambi, 2007).

A favorable brand image has a positive influence on consumer behavior towards the brand in terms of increasing loyalty, commanding a price premium and generating positive word of mouth (Martenson, 2007). In addition, Peter et al., (2007) posited that a good brand name can evoke feelings of trust, confidence, security, strength and many other desirable characteristics. Brand image comprises a consumer's knowledge and beliefs about the brand's diverse products and its non-product attribute. Iversen and Hem (2008) posited that a brand image represents the personal symbolism that consumers associate with the brand. Brand image stems from all of customers consumption experiences and perceived benefits. Favorable brand image and messages have a stronger influence in comparison to competitor brand messages (Hsieh & Li, 2008). Therefore, brand image is an important determinant of a buyer's behavior (Burmann et al., 2008). Brand names are one of the most important assets companies possess because the successful extensions of an existing brand can lead to associated profits. Brands can be characterized as either being products, corporations, persons and places. Thus, brands are multidimensional creations and should be coordinated at management level. Further, Kevin et al., (2006) suggested that brand names have led to brand equity. This is the added value a given brand gives to a product beyond functional benefits provided.

The lesser the number of close substitutes a product has, the greater the opportunity for the firms in industry to raise their product prices and earn greater profits (other things being equal). Substitution reduces demand for a particular class of products as customers switch to the alternatives, even to the extent that this class of products or services becomes obsolete (Johnson, Scholes & Whittington, 2005). In his study on Kenyan sugar manufacturing firms, Obado (2005) found that all the firms employed cost leadership strategies in the value chain activities. The firms also adopted differentiation by branding their sugar; they also used distribution networks and customer service. In his study which sought to investigate the strategies adopted by exhibition stalls to survive industry competition, Kariuki (2007) established that exhibition stalls applied low cost leadership, customer service and product differentiation strategies.

Additionally, brand equity provides competitive advantage to an organization thereby increasing its market share. Consumers are often willing to pay a higher price for a product with brand equity in whichever market segment. The brand equity is presented by premium a consumer will pay for one brand over another on the functional benefits provided it is identical. According to Roy and Banerjee (2007), a brand image describes the consumer's thoughts and feelings towards the brand. It is the overall mental image that consumers have of a brand and its uniqueness in comparison to the other brands (Faircloth, 2005).

Market Diversification Strategies

Organizations achieve diversification by extension of their operation scope into multiple markets (Dibb, 2007; Chandler, 2010). Sustainable competitive advantage is born out of core competencies that yield long-term benefit to the company. Numerous organizations have adopted strategic responses since market complexity and competition have increased drastically in their industry. A diversified firm can be considered as one having operations in more than a single industry or market. Diversification into new lines of business in the current practice of business is about gaining more market share and reaching out to those who can't access your products. This has made many business firms move in to tap into these opportunities by diversifying strategically to net them.

This is being done through acquisitions, green fields and joint ventures (Lynch, 2008). Innovation is the solution to environmental turbulence for future opportunities in the market (Ingwe, 2012). Competitive rivals are firms with similar products and services aimed at the same customer group. Rivalry among existing competitors takes the familiar form of jockeying for position using tactics like price competition, product introduction and aggressive advertising (Johnson, Scholes & Whittington, 2005). Intense rivalry is related to the presence of a number of factors. If competitors are numerous or are roughly equal in size, if industry growth is slow precipitating fights for market share that involve expansion minded members. Powerful suppliers therefore can squeeze profitability out of an industry unable to recover cost increases in its own prices (Pearce & Robinson, 2007). Ngonga (2011) notes that firms need to adopt strategies that would enable them maintain competitive positions in the market or risk elimination. Kotler (2007) observed that turbulent environmental change can lead to yesterday's winning business ways and principles becoming irrelevant today.

A firms' market diversification strategy explains how management intends to grow the business, how to build loyal clientele, how to compete with rivals, how each functional pieces of the business will be operated and how to boost performance (Thompson, Strickland & Gamble 2007). Market uncertainty stems from the lack of clarity in the dynamics of the market and their effects on the firms' operations, demand and supply conditions in the industry. Technological uncertainty pertains to change in the industry's technological resources and capabilities that have potential of undermining a firm's competitive base in the market.

In highly dynamic and complex environments, defending a market share or position becomes difficult. Success depends more and more on responding to and keeping a dynamic alignment with the changing environment through organizational innovation that is correlated with environmental uncertainty. High levels of uncertainty generate more innovation through opportunity searching and adaptation to market changes. The pressure on disposable incomes has had a significant number of consumers switching to mass brands in the cosmetics industry (Euro Monitor, 2011). According to Pearce and Robinson (2005), organization's external environments are all those factors beyond the control of the firm that influence its choice of direction, action, organizational structure and internal processes. Organizations exist in a complex economic, legal, demographic, technological, political, cultural and social environment.

This environment is not static but is under constant change which affects the firms that operates within it. These environmental changes are more complex to some firms than others and for survival an organization must maintain a strategic fit with its environment. A sustainable competitive advantage is achieved when there is a strategic fit between the external and internal environment. Many firms in the cosmetics industry have focused their expansion strategies on market segment development to reap from increasing demand for beauty products.

As a result, the cosmetic firms have produced mass market brands rather than investing in innovation with consumers rewarding the strategy by buying those products due to their affordable nature and availability in all outlets (Euro monitor, 2011). Yaser (2010) on a study on competitive strategies and firm performance acknowledges that while unrelated diversification helps firms achieve economies of scope; the benefits of this strategy might be offset by several disadvantages. The consequence is the inability to manage and make the most of present competencies to deliver the desired results (Flyvbjerg, 2011). Through innovation; firms may become more responsive to customer needs (Kanter, 2008). This is not only likely to give the firms a competitive advantage but also enable them create new markets for their goods and services. Some of the pressures of the changes in the cosmetic industry have resulted from market liberation and development of global markets, changing customer needs; intensified business competition and constant search for new products. This has necessitated quick responses by the cosmetic firms to the changing needs of their customers (Njogu, 2007).

For instance, Glueck and Jauch (2008) suggest concentration, integration, diversification, cooperation, and internationalization as different routes to expansion. But these strategies do not necessarily lead to expansion of market for a particular product category. Similarly, Ansoff (2007) in his product-market growth matrix talks about market extension strategy and market penetration strategy. The assumption is that diversification may raise economic benefits through a more efficient utilization of organizational resources across multiple markets (Boyd *et al.*, 2004). As such, related diversification can lead to higher corporate performance. According to Beddowes (2004), by pursuing a strategy of related diversification, firms can focus on core organizational capabilities and exploit the interrelationships between business lines to achieve economies of scope by sharing physical business resources and economies of scale through increased coordination and the sharing of marketing, information and technological knowhow and capabilities across related industries all of which result in lower production, selling, servicing and distribution costs, better market coverage, stronger brand image and company reputation and lower order processing costs (Collis, 2007).

Growth of Cosmetic Firms

Beside the risk reduction, there are other benefits of diversification on growth. According to Orina (2011), diversification enhances growth. It provides a base for increase in market share. Diversification also helps in survival of firms by increasing customer base for the firm. Beauty industry has a number of very distinctive historic characteristics that raises unusual interest. Even if relatively young compared with other industries, its roots can be traced back to ancient times as early as Egyptian, Greek and Roman era. Castor oil was used in ancient Egypt as a protective balsam or using oil-based perfumes by Romans on their bodies, in their baths and fountains (Kumar, 2005). Ancient Greeks also used cosmetics. Galen, an ancient Greek physician is known to be the inventor of the first cold cream (Adkins & Adkins, 2014). Recently, there has been compelling research on “beauty premium” which enables those considered more attractive to get better jobs, to get promoted, to get higher tips and earn higher student evaluations and other benefits (Guéguen & Jacob, 2012). This is the main reason why, the first main impact globalization exercised in cosmetic industry regarded the homogenization of beauty ideals (Jones, 2011). In this first globalization stage beauty ideas and assumption prevalent in Western societies spread as a global benchmark. Despite all these, the cosmetics companies have found the way to overcome all the obstacles and to continue the globalization-driven growth path. Contrary to many other industries profoundly affected by the global financial crises, recessions appear to increase women’s spending on beauty products because the consumers are under pressure still want to feel good and to lift their spirit (Hill et al., 2012).

According to Euromonitor International (2016), three trends in the cosmetic industry have been identified in the last decade: the increase of customers’ attention for less expensive brands, the increase of propensity towards natural and organic ingredients and the shift towards chemists/pharmacies distribution channels. The propensity to buy products sold by less expensive brands came as a natural result of an increased uncertainty induced by the fragile economic situation. Natural products sector has shown an important increase following the new research in the medical area that shown the damaging effect of different artificial components. The growth of the cosmetic industry has seen France become the largest beauty products world exporter with 7 US $ billions in 2015 making Paris the world capital of beauty (Jones, 2011). In Kenya, players in the cosmetic industry admit that the market has grown in leaps and bounds from what it was three years ago (Muthoni, 2013). Consumers are now more sophisticated and have become experts at using cosmetic products. They are also seeking more knowledge through industry experts (Situma, 2013). After many years of trading, multinational cosmetic companies contribute about 35% of the market share in Kenya (World Cosmetics, 2013). Lack of direct representation by multinational cosmetic firms have provided the local companies with the opportunity for growth and enabled them market their products more aggressively.

According to Muthoni (2013), on average a client spends anywhere between ksh 3,000 to kshs. 25,000 a month on beauty needs, which is a demonstration that the Kenyan woman prioritizes her beauty needs in her prearranged budget. She further adds that men too have joined the band wagon and are seen making frequent visits to the beauty parlors for manicures, pedicures and haircuts. Here they use cosmetic products such as nail polish, shampoo and hair dye. It is also not unusual to see men visit the cosmetic shops to buy body lotion, cologne, lip gloss, hair treatment among other products. Cosmetic multinationals have noticed the increasing demand for quality products and are now scrambling to get a cut in the market. With the entry into the Kenyan market by multinational companies like L'Oreal, Estee' Lauder, Revlon and Oriflame in a span of less than three years (Situma, 2013), joining the industry giants, it is evident that the demand for cosmetic products is on the rise and the market is not fully tapped.

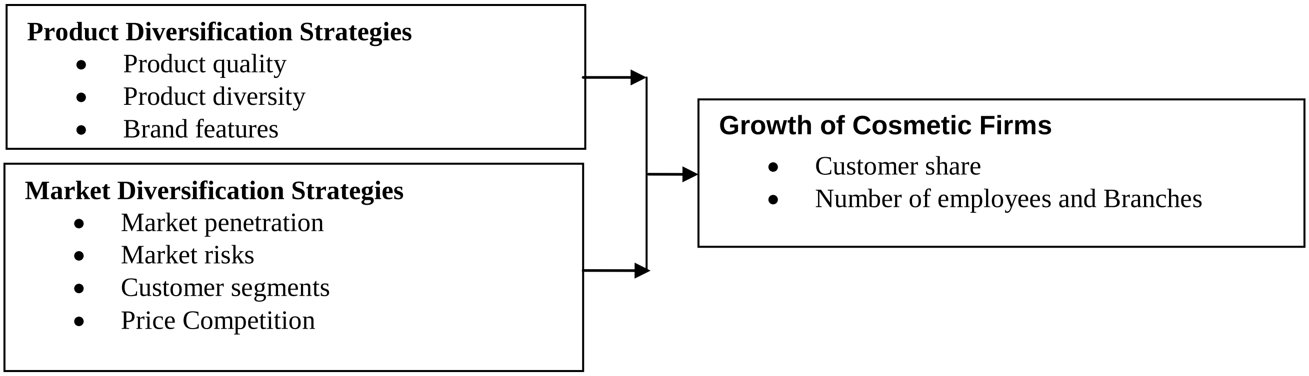
Local companies such as Haco Industries and Inter-consumer Products Limited have not been left behind either. There is a big and growing market for their products. The level of growth in cosmetics has also caught the attention of retailers like Nakumatt Holdings which invested heavily in the cosmetic market and is currently selling 36,472 units estimated to be worth Sh36.8 million annually. Nakumatt has since invested Kshs.100 million ($1 million) to market Revlon. It has also diversified the range of other cosmetic products. Nakumatt capitalized on the huge interest women have in hair products and aspiration to look good. The young demographic profile of the Kenyan population and their improved education levels has necessitated the growth of the cosmetic industry.

Conceptual Framework

According to Fawcett et al. (2006), a conceptual framework is a basic structure that consists of certain abstract blocks which represent the observational, the experiential and the analytical aspects of a process or system being conceived. The interconnection of these blocks completes the framework expected outcomes.

In this study, the conceptual framework in Figure 1 demonstrated the linkage of the independent variables (product diversification, market diversification and functional diversification) and dependent variable (growth of cosmetic firms in Nakuru County). The conceptual framework shows that the independent variables directly affect the growth of cosmetic firms

Figure 1: Conceptual Framework



Summary of Reviewed Literature

Diversification effects on firm value describe diversification as the entry of a firm into new lines of activity through a process of internal development. Firms which have diversified into products that use the existing internal resources or capabilities benefit from economies of scale and earn higher returns. Although competitors may have a similar product, the differentiation strategy focuses on the quality or design differences. In this case, a business gains an advantage in the market as customers view the product as unique. Diversification through differentiation strategy aims to build up competitive advantage by offering unique products characterized by valuable features such as quality, innovation and customer service. A favorable brand image has a positive influence on consumer behavior towards the brand in terms of increasing loyalty, commanding a price premium and generating positive word of mouth.

Therefore, brand image is an important determinant of a buyer's behavior. Substitution reduces demand for a particular class of products as customers switch to the alternatives. Diversification of organizations is by the extension diversification of their operation scope into multiple markets. A diversified firm can be considered as one having operations in more than a single industry or market. Diversification into new lines of business in the current practice of business is about gaining more market share and reaching out to those who can't access your products. Competitive rivals are firms with similar products and services aimed at the same customer group. Therefore, firms need to adopt strategies that would enable them maintain competitive positions in the market or risk elimination. Additionally, market uncertainty stems from the lack of clarity in the dynamics of the market and their effects on the firms' operations, demand and supply conditions in the industry. High levels of uncertainty generate more innovation through opportunity searching and adaptation to market changes.

Many firms in the cosmetics industry have focused their expansion strategies on market segment development to reap from increasing demand for beauty products. Some of the pressures of the changes in the cosmetic industry have resulted from market liberation and development of global markets, changing customer needs; intensified business competition and constant search for new products. In functional integration, companies rely on making decisions to use internal transactions rather than market transactions in order to achieve economic goals. But this depends on the efficiency of managers and whether they choose to follow the owners preferred diversification conditions or take the whole responsibility of diversifying. Managers must therefore increase efficiency for survival of the organization.

Research Gaps

Synergies from product diversification are more likely to be realized when firms expand into related lines of business (Luo, 2009). Even with similar products, differentiation strategy focuses on the quality or design differences because it creates the economies of scale. Diversification through differentiation strategy builds competitive advantage by offering unique products characterized by quality, innovation and customer service (Kinyanjui, 2012). Brand image is critical in diversification strategies because of the consumers' knowledge. A brand image represents the personal symbolism that consumers associate with the brand (Iversen & Hem, 2008). Products with lesser number of close substitutes give greater opportunity for the firms to raise their product prices and earn greater profits. Diversification into new lines of business aims at gaining more market share and reaching out to new customer segments.

Further, innovation is the solution to environmental turbulence for future opportunities in the market (Ingwe, 2012). Intense rivalry is related to the number and size of competition and opportunities for growth. Powerful suppliers therefore can squeeze profitability out of an industry unable to recover cost increases in its own prices. Ngonga (2011) notes that firms need to adopt strategies that would enable them maintain competitive positions in the market or risk elimination because of uncertainty. Moreover, in highly dynamic and complex environments, defending a market share or position becomes difficult. The pressure on disposable incomes has had a significant number of consumers switching to mass brands in the cosmetics industry (Euro Monitor, 2011). As a result, the cosmetic firms have produced mass market brands rather than investing in innovation with consumers rewarding the strategy by buying those products due to their affordable nature and availability in all outlets (Euro monitor, 2011). Through innovation, firms may become more responsive to customer needs (Kanter, 2008). This is not only likely to give the firms a competitive advantage but also enable them create new markets for their goods and services. Dealing with the market environment is difficult because of diversity of influences that affect a business, the speed of change and problem of complexity (Johnson & Scholes, 2005). To ensure that functional integration is successful, separate departments within an organization must work together to efficiently meet end customers' needs (Pagell, 2004).

RESEARCH METHODOLOGY

Research Design

This study adopted a descriptive research design. Orodho (2002) states that descriptive research design is important in carrying out both explanatory and preliminary studies as it permits researchers in collecting information, summarizing and interpreting with the view of clarifying the information. Further, a descriptive research design is a scientific method which involves observing and describing the behavior of a subject without influencing it in any way. Descriptive research entails various steps and procedures to draw conclusions about the description of various variables under the study with an intention to answer the research questions. Descriptive survey is used to collect data and administer questionnaires from the respondents to ascertain the current situation of variables under the study. The study collected both qualitative and quantitative data using a semi-structured questionnaire.

Target Population

Target population in research is the specific population about which information is desired. According to Ngechu (2008), a population is a well defined or set of people, services, elements, events, group of things or households that are being investigated. Mugenda and Mugenda (2008) explain that the target population should have some observable characteristics, to which the researcher intends to generalize the results of the study. This definition ensures that population of interest is homogeneous. Nakuru County has 256 registered cosmetic firms as per the business registry records for the year 2017. Out of the registered 256 cosmetic firms, 82% or 210 cosmetic firms were spread across three sub-counties (Nakuru town East, Nakuru town West and Naivasha) while the remaining 46 cosmetic firms were spread among the remaining 8 sub-counties. This study therefore targeted the 210 cosmetic business owners operating in Nakuru town East, Nakuru town West and Naivasha town. Further, 126 cosmetic business owners (60%) were drawn from Nakuru town while 84 cosmetic business owners (40%) were drawn from Naivasha town.

Sampling Frame

A sampling frame is a list of all the items from which a representative sample is drawn for the purpose of research. The sample frame for this study was the 210 cosmetic business owners or participants.

Sample Size and Sampling Technique

The purpose of sampling is to secure a representative group which enabled the researcher to gain information about an entire population when faced with limitations of time, funds and energy. It also refers to the technique or the procedure the researcher would adopt in selecting items for the sample (Kothari, 2010). A sample size of 68 was randomly selected from the target population of 210 participants using the mathematical approach developed by Nassiuma (2000).

$$n = \frac{NC^2}{C^2 + (N-1)e^2} \quad \text{..Equation (3.1)}$$

n = sample size; N = population size; C = coefficient of variation which is 50% and *e* = error margin which is 0.05.

$$n = \frac{210\,(0.5)^2}{0.5^2 + (210-1)0.05^2}$$

$$n = 68$$

The study used multi-stage sampling technique to select a sample size of 68 cosmetic business owners. This sampling technique was preferred because it is effective in primary data collection from geographically dispersed populations. As a result, the target population was put into two clusters of 126 cosmetic owners from Nakuru town and 84 cosmetic owners from Naivasha town. Thus, 60% of the sample size or 41 participants were randomly selected from Nakuru town while 17 participants (40%) were randomly selected from Naivasha town.

Research Instruments

This study used a self designed semi-structured questionnaire. A questionnaire is preferred in this study as the data collection instrument because it is easy to formulate and administer and also provides a relatively simple and straightforward approach to the study of attitudes, values, beliefs and motives (Robson, 2002). The questionnaire had both open and close-ended questions. The close-ended questions were scaled on 1-5 point Likert scale.

Data Collection Procedure

Data collection as defined by Kombo and Tromp (2006) is the process of gathering specific information aimed at proving or refuting some facts. The semi-structured questionnaires were distributed through a drop and pick later method. Follow up was made to ensure that questionnaires are collected on time and to offer assistance to the respondents having difficulty in completing the questionnaires.

Pilot Test

The researcher carried out a pilot study to pretest and validates the research instrument (questionnaire). The pilot study was carried in Kericho town among cosmetic businesses. The research instrument (semi-structured questionnaire) was pre-tested using a sample size of 7 participants as per recommendations by Shaughnessy, Zechmeister and Zechmeister (2006) who observed that a fruitful pilot study employs about 10% of the actual sample size.

Instrument Validity

Validity is also the degree to which an instrument measures what is supposed to measure (Kothari, 2004). The validity of the research instrument was established through consultation with the research supervisor. Furthermore, the questionnaire was subjected to pre-test to detect any deficiencies in it. Comments and suggestions made by the pre-test respondents were included to address any insufficiencies in the research instrument.

Instrument Reliability

Reliability is a measure of the degree to which a research instrument yields consistent results after several trials (Mugenda & Mugenda, 2003). According to Kombo and Tromp (2006), reliability is the extent to which results are consistent overtime. Reliability of the research instrument was determined using Cronbach's coefficient alpha for either even or uneven items based on the order of number of arrangement of the questionnaire items. A correlation coefficient greater or equal to 0.7 is acceptable (George & Mallery, 2003). Field et al., (2012) observes that a Cronbach's $\alpha > 0.7$ implies the instrument provides a relatively good measure.

Data Processing and Analysis

The cleaned and coded data was analyzed using both descriptive and inferential statistical methods. The responses were coded into numerical form to facilitate statistical analysis. The data was then analyzed using statistical package for social sciences (SPSS version 23) based on the questionnaires. The study used a linear relationship between the independent variables and the dependent variable and adopt the Ordinary Least Square Method of estimation (OLS) in examining the following multiple linear regression model. **ε** is an error term normally distributed about a mean of 0.

$Y = \propto + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$ ……………………………………………Equation (3.2)

Where: Y is the dependent variable (Growth of cosmetic firms), $\propto$ is the regression coefficient, β_1, β_2 and β_3 are the coefficients of the linear regression equation. X_1 represent product diversification and X_2 represent market diversification.

Assumptions of the Model

i. The relationship between the independent and dependent variables is linear.

ii. Taking all factors into account (independent variables) constant, growth of cosmetic firms will be α .

iii. The error terms along the regression are equal

FINDINGS AND DISCUSSION

Pilot Test Results

As a result, a pilot study was conducted at Kericho town. 10% of the study sample (7 participants) as recommended by Mugenda and Mugenda (2003) was randomly selected and administered with questionnaires. The response rate was 100%. The questionnaires were coded and Cronbach's Alpha analysis was then conducted. All the 3 variables gave Cronbach's Alpha coefficient values greater than 0.7 as shown in Table 1.

From the study results, the variables had 7, 7 and 6 items with Cronbach Alpha values of 0.723, 0.750, 0.698 and 0.741 respectively. Therefore, product diversification, market diversification and growth of cosmetic firms all had Cronbach values which were either equal to 0.7 or greater than 0.7. A correlation coefficient greater or equal to 0.7 is acceptable (George & Mallery, 2003). Field et al., (2012) observes that a Cronbach's $\alpha > 0.7$ implies that the research instrument provides a relatively good measure. The results of the pilot study were not included in the final data analysis.

Table 1: Reliability Test Results

Variable	No. of Items	Cronbach's Alpha Value
Product diversification	7	.723
Market diversification	7	.750
Growth of Cosmetic firms	6	.741

Response Rate

Out of 68 questionnaires which were given out to the participants, 60 were filled and retuned. The response rate of all the questionnaires stood at 86.67%. This high response was achieved because the researcher self administered the questionnaires with the help of the research assistants on a drop and collect later basis. According to Mugenda and Mugenda (2003), a response rate of 50% is adequate for analysis and reporting but a response rate of 70% and above is excellent.

Demographic Profile of the Participants

Age of the Participants

The results in Table 2 shows that 25% of the participants were aged between 20 and 25 years, 40% were aged between 26 and 30 years, 15% were aged between 31 and 35 years and 20% were aged 35 years and above. This result indicates that majority of the participants were aged between 26 and 30 years implying the participant were relatively young in age.

Table 2: Age of the Participants

Age Categories	Frequency	Percent (%)
20-25 years	15	25.0
26-30 years	24	40.0
31-35 years	9	15.0
Above 35 years	12	20.0
Total	**60**	**100.0**

Position Held in Cosmetic Industry

The study further sought to determine the positions held by the participants in the cosmetic industry. The results illustrated in Table 3 indicates that majority of the participants were retailers (50%) followed by wholesalers at 20%. Additionally, 15% were distributors while a further 15% were suppliers respectively.

Table 3: Position Held in Cosmetic Industry

Position	Frequency	Percent (%)
Distributor	9	15.0
Retailer	30	50.0
Supplier	9	15.0
Wholesaler	12	20.0
Total	**60**	**100.0**

Highest Level of Education

The study also sought to establish the highest levels of education attained by the participants. From the findings shown in Table 4, majority of the participants (40%) attained the Kenya certificate of secondary education, 16.7% attained certificate level of education, 31.7% attained diploma level of education and 11.6% had attained university level of education. The findings imply that the participants were adequately educated to comprehend the study questions and therefore provided the information sought by the study.

Table 4: Highest Level of Education

Highest Level of Education	Frequency	Percent (%)
KCSE certificate	24	40
Certificate	10	16.7
Diploma	19	31.7
University Graduate	7	11.6
Total	**60**	**100.0**

Experience of Participants in Cosmetic Industry

The study required the participants to indicate the length of experience they had been involved in the cosmetic industry. The results in Table 5 indicate that 53.3% had been involved in the cosmetic industry for between 1 to 5 years, 20% had been involved for less than one year, 15% had been involved for between 5 and 10 years while 11.7% had been involved for 10 years and above.

Table 5: Working Experience in Cosmetic Industry

Experience in Years	Frequency	Percent (%)
Less than 1 year	12	20.0
1-5 years	32	53.3
5-10 years	9	15.0
Above 10 years	7	11.7
Total	**60**	**100.0**

Descriptive Statistics of the Study

Effect of Product Diversification Strategies on Growth of Cosmetic Firms

The findings in Table 6 shows that 55% of the participants felt that diversification of cosmetic products into related products led to increase in number of customers (mean= 4.400, SD= 0.812). This means that diversifying product into related lines leads to increased number of customers. This finding is consistent with that of Luo (2009) who added that synergies from product diversification are more likely to be realized when firms expand into related lines of business or industries. Further, the study required the participants to indicate whether offering unique products helped build up competitive advantage. Majority (51.7%) of the participants strongly agreed with the statement in their responses (mean= 4.486, SD= 0.562). A standard deviation of 0.562 implies that majority of the participants were cohesive in their responses. Similarly, the study sought to establish whether product value helped defend a firm against competitive forces from substitute products/new entrants. Majority of the participants were in agreement (43.3%) with the statement (mean= 4.000, SD= 0.875). On the view that cosmetic product features determines differentiation and branding of products through distribution channels and customer preferences, majority 60% were in agreement, 3.4% strongly disagreed while 23.3% strongly agreed with the statement (mean= 4.086, SD=0.659).

In addition, on whether favorable customer views about a brand and messages have a stronger influence in comparison to competitive brand messages, 36.7% strongly agreed, 36.7% agreed while 20% were impartial in their responses to the statement (mean= 4.029, SD= 0.985). This finding is congruent to those of Hsieh and Li (2008) who posited that favorable brand image and messages have a stronger influence in comparison to competitor brand messages. According to Burmann et al., (2008), brand image is an important determinant of a buyer's behavior. Moreover, the study sought to establish whether cosmetic product diversity has enhanced diversification to related product lines. Majority of the participants, 56.7% were in agreement, 20% were neutral while 3.3% strongly disagreed with the statement in their responses (mean= 3.914, SD= 0.562). Correspondingly, the study sought to find out whether substitution of products reduced demand for a particular class of products as customers switch to alternatives. Majority, 35% were impartial in their responses while 23.3% strongly agreed with the statement (mean= 3.400, SD= 1.218). A standard deviation of 1.218 implies that majority of the participants had divergent opinions in their responses to the statement.

The open ended question on product diversification sought to determine the factors hinder product diversification in the cosmetic industry. Majority of the participants indicated that the cost of the product, availability of the products, customer preferences and tastes, competitive strategy adopted and competition from renowned or famous products were the main factors hampering diversification in the cosmetic industry. The second question sought to establish how a good brand name helps in driving up sales. Majority of the participants felt that good brand names motivates or persuades attracts, it evokes quality and imparts loyalty to customers.

Table 6: Effect of Product Diversification Strategies on Growth of Cosmetic Firms

Product Diversification	N	SA	A	N	D	SD	Mean	Std.D
1. Diversification of cosmetic products into related products leads to increase in number of customers	60	28.3%	55%	8.3%	5.0%	3.4%	4.400	0.812
2. Offering unique products helps build up competitive advantage	60	51.7%	35.0%	8.3%	3.3%	1.7%	4.486	0.562

									Table 6...
3.	Product value helps defend a firm against competitive forces from substitute products/new entrants	60	28.3%	43.3%	20.0%	5.0%	3.4%	4.000	0.875
4.	Cosmetic product features determines differentiation and branding of products through distribution channels and customer preferences	60	23.3%	60.0%	8.3%	5.0%	3.4%	4.086	0.659
5.	Favorable customer view about a brand and messages have a stronger influence in comparison to competitive brand messages	60	36.7%	36.7%	20.0%	3.3%	3.3%	4.029	0.985
6.	Cosmetic product diversity has enhanced diversification to related product lines	60	11.7%	56.7%	20.0%	8.3%	3.3%	3.914	0.562
7.	Substitution of products reduces demand for a particular class of products as customers switch to alternatives	60	23.3%	23.3%	35.0%	11.7%	6.7%	3.400	1.218

Scale: 5 – strongly agree (SA), 4 – Agree (A), 3 – Neutral (N), 2 – Disagree (D), 1- Strongly Disagree (SD).

Effect of Market Diversification Strategies on Growth of Cosmetic Firms

The study also sought to establish the effect of market diversification on the growth of cosmetic firms in Table 7. The first statement required the participants to indicate whether market penetration and competition have increased drastically in the cosmetic industry. The findings revealed that majority of the participants were strongly in agreement (mean= 4.571, SD= 0.608). On whether diversification into new lines of business enabled cosmetic firms gain new market share, majority of the participants were in agreement (mean=4.029, SD=1.043). Further, on whether cosmetic firms were continually adopting new strategies to fight risks in the market, majority were in agreement (mean=3.657, SD= 0.684). In addition, the study sought to find out whether many cosmetic firms focus their expansion strategies on market segment development to reap from increasing demand. Majority of the participants were in agreement in their responses to the statement (mean=3.791, SD=0.568). Moreover, the study sought to find out whether competitive cosmetic firms use price competition to penetrate into new markets. The findings revealed that majority were in agreement (mean= 4.201, SD=0.868). These findings are in tandem with Johnson, Scholes and Whittington (2005) who posited that rivalry among existing competitors takes the familiar form of jockeying for position using tactics like price competition, product introduction and aggressive advertising.

Table 7: Effect of Market Diversification Strategies on Growth of Cosmetic Firms

Market Diversification	N	Min	Max	Mean	Std. Deviation
1. Market penetration and competition have increased drastically in the cosmetic industry	60	3	5	4.571	.608
2. Diversification into new lines of business enables cosmetic firms gain new market share	60	1	5	4.029	1.043
3. Cosmetic firms are continually adopting new strategies to fight risks in the market	60	2	5	3.657	.684
4. Many cosmetic firms focus expansion strategies on market segment development to reap from increasing demand	60	3	5	3.971	.568
5. Competitive cosmetic firms use price competition to penetrate into new markets	60	1	5	4.201	0.868
6. Cosmetic firms have produced mass market brands rather than investing in innovation	60	1	5	3.486	0.981
7. Related diversification leads to multiple markets and enhanced performance of cosmetic firms	60	2	5	4.086	0.742

Scale: 5 – strongly agree, 4 – Agree, 3 – Neutral, 2 – Disagree, 1- Strongly Disagree

The participants also agreed that cosmetic firms have produced mass market brands rather than investing in innovation (mean=3.486, SD= 0.981). This finding is inconsistent with Kanter (2008) that through innovation; firms may become more responsive to customer needs to give the firms a competitive advantage and enable them create new markets for their goods and services. Furthermore, majority of the participants agreed that related diversification leads to multiple markets and enhanced performance of cosmetic firms (mean= 4.086, SD=0.742). The open ended question required the participants to indicate how changing customer needs and search for new markets affect market diversification by cosmetic firms. Majority of the participants said that changing customer needs has an impact on sales, some product stocks may move slowly because of diverse customer share and tastes and introduction of quality rival products. The second question sought to find out ways innovation helps cosmetic firms to become more responsive to customer needs. From the responses, the study established that innovation provides an avenue for knowing which products to merge, product loyalty by tracking number of customers looking for a specific product, price competition, provides access to more information regarding certain products, enhances customer experience and innovation makes it possible to collect customer data for determining preferences and tastes.

Growth of Cosmetic Firms

The findings from the analysis on growth of cosmetic firms as presented in Table 4.8 indicated that majority were in agreement that diversification of a cosmetic firm enhances growth and increases its market share (mean=4.200, SD=1.023). These findings are congruent to those of Orina (2011) that diversification enhances growth by providing a base for increase in market share. Diversification also helps in survival of firms by increasing customer base for the firm. The participant also agreed that number of branches and employees affect the growth of cosmetic firms (mean=3.971, SD=1.071). On the same note, the participants strongly agreed that the number of customers a cosmetic firm attracts determines its growth (mean=4.571, SD=0.655). The participants were impartial that lack of adequate representation of multinationals has given local firms opportunity to invest aggressively (mean=3.343, SD=0.968). In addition, the participants strongly agreed that there is increased demand for quality cosmetic products (mean=4.571, SD=0.558). Finally, the participants agreed that diversified cosmetic firms have increased customer share in the market (mean=4.171, SD=0.618). The open ended questions on growth of cosmetic firms asked the participants to cite the factors which affect growth of locally manufactured cosmetic products. The study established from the responses that taxation, capital requirements, unhealthy competition from international brands, perceived low quality of products, customer preferences for imported products, product packaging and branding and lack of trust affect the growth of locally manufactured cosmetic products.

Table 8: Growth of Cosmetic Firms

Growth of Cosmetic Firms	N	Min	Max	Mean	Std. Deviation
1. Diversification of a cosmetic firm enhances growth and increases its market share	60	1	5	4.200	1.023
2. Number of branches and employees affects the growth of cosmetic firms	60	1	5	3.971	1.071
3. The number of customers a cosmetic firm attracts determines its growth	60	3	5	4.571	.655
4. Lack of adequate representation of multinationals has given local firms opportunity to invest aggressively	60	1	5	3.343	0.968
5. There is increased demand for quality cosmetic products	60	3	5	4.571	0.558
6. Diversified cosmetic firms have increased customer share in the market	60	3	5	4.171	0.618

Scale: 5 – strongly agree, 4 – Agree, 3 – Neutral, 2 – Disagree, 1- Strongly Disagree

Correlation Analysis of the Study Variables

The researcher undertook correlation analysis to establish the underlying relationships between the independent and the dependent variables.

Correlation between Product Diversification and Growth of Cosmetic Firms

From Table 9, the researcher established that there exist a strong positive and significant Pearson correlation coefficient (r = 0.608) between product diversification and growth of cosmetic firms. Further, the significance level (0.000) is less than 0.05. As a result, the study rejected the null hypothesis and concluded that product diversification strategies have a significant effect on the growth of cosmetic firms. The findings are congruent to those of Hitt, Hoskisson and Kim (2011) who indicated that firms that have diversified into products that use the existing internal resources or capabilities benefits from economies of scale and earn higher returns. Additionally, Kinyanjui (2012) posited that diversification through differentiation strategy aims to build up competitive advantage by offering unique products characterized by valuable features such as quality, innovation and customer service.

Table 9: Correlation between Product Diversification and Growth of Cosmetic Firms

		Product Diversification
	Pearson Correlation	.608**
Growth of Cosmetic	Sig. (2-tailed)	.000
Firms	N	60

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

Correlation between Market Diversification and Growth of Cosmetic Firms

The coefficient of Correlation (r= 0.713) in Table 10 shows that there is a strong, positive and significant relationship between market diversification strategies and growth of cosmetic firms. The significance level of 0.027 is less than 0.05 implying that the relationship is statistically significant. Thus, the study rejects the null hypothesis and concludes that market diversification strategies have a significant effect on growth of cosmetic firms. The findings are consistent with those of Thompson, Strickland and Gamble (2007) who indicated that firms' market diversification strategy explains how management intends to grow the business, how to build loyal clientele, how to compete with rivals, how each functional pieces of the business will be operated and how to boost performance and therefore growth. Further, Ngonga (2011) notes that firms need to adopt strategies that would enable them maintain competitive positions in the market or risk elimination.

Table 10: Correlation between Market Diversification and Growth of Cosmetic Firms

		Market Diversification
Growth of Cosmetic Firms	Pearson Correlation	.713*
	Sig. (2-tailed)	.027
	N	60

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

Regression Statistics

Regression Model Summary

The study conducted a regression analysis to find out the strength of the relationship between independent and dependent variables. The model summary in Table 11 indicates an adjusted R Square of 0.413 meaning that the factors independent variables examined were able to depict 41.3% of the relationship between concentric diversification strategies and growth of cosmetic firms in Nakuru County. Thus unexplained variables constitute the remaining 58.7%. R-squared cannot determine whether the coefficient estimates and predictions are biased and therefore adjusted R-square was used to explain the model summary. Further, adjusted R-square is used to compare models with different numbers of predictors and also it is used to determine how well the model predicts new observations and whether the model is too complicated.

Table 11: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.531[a]	.423	.413	.6190

a. Predictors: (Constant), Product diversification and Market diversification

b. Dependent Variable: Growth of Cosmetic firms

Analysis of Variance of the Regression Model

Table 12 indicates the ANOVA findings thus the level of significance of the model was at 95% confidence level**.** In general, if the F statistic in a test is smaller than the F calculated value, the null hypothesis (model) is usually rejected meaning it is not significant. In this study, the F statistic (4.546) is greater than the F critical (1, 58) which was equal to 4.01 and therefore the model was significant.

Table 12: Analysis of Variance of the Regression Model

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.855	1	3.855	4.546	.001[a]
	Residual	49.156	58	.848		
	Total	53.011	59			

a. Predictors: (Constant), Product diversification and Market diversification

b. Dependent Variable: Growth of Cosmetic Firms

Regression Coefficients

Table 13 indicates the coefficients for the regression model applied in the study. The table of coefficients provides the model coefficients for the parametric models. In addition to the estimates of the coefficients, the table includes a measure of the variability or error of each estimate and a test statistic (p-value)

The regression equation $Y= \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3$ translate to:

Growth of cosmetic firms= 1.069 + 0.628 Product diversification + 0.634 Market diversification

Constant = 1.069 shows that if product diversification, market diversification = 0, then increase in growth of cosmetic firms would be 1.069. $0.628X_1$: shows that one unit change in product diversification strategies results in 0.628 units increase in growth of cosmetic firms. $0.634X_2$: shows that one unit change in market diversification strategies results in 0.634 units increase in growth of cosmetic firms. At 5% level of significance and 95% level of confidence, product diversification strategies had a 0.032 level of significance; market diversification strategies showed a 0.024 level of significance and hence market diversification strategies was the most significant factor. These findings are in support of those of Schindler and Cooper (2008).A firm can also diversify into a closely related business or move into a completely new business that is not related to their current operations.

Table 13: Regression Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	1.069	1.007		1.038	.024
	Product Diversification	.628	.212	.510	1.550	.032
	Market diversification	.634	.354	.521	1.224	.024

a. Dependent Variable: Growth of Cosmetic firms

SUMMARY OF THE FINDINGS

Effect of Product Diversification on Growth of Cosmetic Firms

The findings on product diversification showed that diversification of cosmetic products into related products led to increased number of customers. The findings further ascertained that when cosmetic firms offer unique products, they build up their competitive advantage. Similarly, the findings disclosed that product value defends cosmetic firms against competitive forces from substitute products/new entrants. Moreover, the findings showed that cosmetic product features determines differentiation and branding of products through distribution channels and customer preferences. In addition, the study established that favorable customer views about a brand and messages have a stronger influence in comparison to competitive brand messages. Moreover, it was established that cosmetic product diversity has enhanced diversification to related product lines. Correspondingly, the findings revealed that substitution of products does not often reduce demand for a particular class of products as customers switch to alternatives. In conclusion, the study determined that cost of the product, availability of the products, customer preferences and tastes, competitive strategy adopted and competition from renowned or famous products are the factors which hamper product diversification in the cosmetic industry. Similarly, a good brand name helps in driving up sales because it motivates or persuades, attracts, evokes quality and imparts loyalty to customers. The study also established that there existed a strong positive and significant Pearson correlation coefficient between product diversification and growth of cosmetic firms.

Effect of Market Diversification on Growth of Cosmetic Firms

On market diversification, the study established that cosmetic industry market penetration and competition have increased drastically. The study also found that diversification into new lines of business has enabled cosmetic firms gain new market share. The cosmetic industry continually adopts new strategies to fight risks in the market. Moreover, the study ascertained that many cosmetic firms focus their expansion strategies on market segment development so as to reap from increasing demand. Likewise, the study found that competitive cosmetic firms use price competition to penetrate into new markets. It was also established that cosmetic firms have concentrated on mass production of market products rather than investing on innovation. Also, the study established that when cosmetic firms invest on related diversification, they access multiple markets and enhance their performance. Besides, the study determined that changing customer needs and search for new markets affect market diversification because it affects sales, stock movement due to customer preferences and tastes and introduction of superior products. It was further determined that innovation helps cosmetic firms to more responsive to customer needs as it necessitates tracking of sales, brand loyalty, evaluation of price competition, enhances customer experience, data collection and analysis of customer tastes and preference. Correspondingly, the study established that there was a strong, positive and significant relationship between market diversification strategies and growth of cosmetic firms.

CONCLUSIONS

On product diversification, the study concludes that related diversification increases product sales hence growth of cosmetic firms. Further, offering unique products enhances competitive advantage of cosmetic firms. Building product value shields cosmetic firms from competitive forces due to substitutes or new products in the market. The study also concludes that product features, distribution channels and customer preferences are key determinants of differentiation. Customer views about a brand or product determines the level of product diversification in cosmetic firms. Moreover, cosmetic product diversity enhances diversification to related product lines. The study additionally concludes that when customers switch to alternative cosmetic products demand for a particular class of products does not always reduce. The findings revealed that product diversification is affected by product cost, availability of the products, customer preferences and tastes, type of competitive strategy adopted and competition from superior products. A good brand name drives up sales by persuading, attracting and building quality loyalty to customers.

In addition, the study concludes that market penetration and competition in the cosmetic industry is on the increase. Moreover, cosmetic firms gain new market share by diversifying into new lines of businesses. Because of market risks, cosmetic firms are always adopting new diversification strategies. Moreover, the study concludes that cosmetic firms develop market segments to meet rising demand. Competitive cosmetic firms use price competition to penetrate into new markets. Likewise, cosmetic firms have invested more on mass production of products than on innovation. By investing in related diversification, cosmetic firms access multiple markets. As well, changing customer needs and new markets affect market diversification because it affects sales, customer preferences and tastes and introduction of superior products. Innovation enables cosmetic firms to be more responsive to customer needs to necessitates tracking of sales, brand loyalty, evaluation of price competition, data collection and analysis of customer tastes and preference.

RECOMMENDATIONS

The study recommends that cosmetic firms should focus more on diversifying into related product lines to improve their growth. Further, cosmetic firms should strive on offering quality and unique products for specific customer segments to attain competitive advantage. Also when diversifying cosmetic firms should prioritize product features distribution channels and customer preferences. Moreover, cosmetic firms should provide product diversity and variety to customers to ensure they maintain market share. The type of competitive strategy adopted should integrate product cost, customer preferences and tastes.

In addition, the study recommends that cosmetic firms should develop more strategies to reach more customers because demand for products is growing. Moreover, cosmetic firms should develop more lines of new products to increase their market share. Cosmetic firms should always conduct risk analysis before embarking on market diversification. Furthermore, cosmetic firms should develop and penetrate customer segments using price and brand loyalty strategies. As well, cosmetic firms should invest more on innovation to meet customer needs and grow their market share. Cosmetic firms should develop plans to counter changing customer needs and preferences and survive in the uncertain market environment.

SCOPE FOR FURTHER STUDIES

- The study recommends that further research should be carried out on the effects of innovation on the growth of cosmetic firms in Kenya.
- The study also recommends that further research should be carried out on the effect of conglomerate diversification strategies on growth of cosmetic firms in Kenya.

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