

Licensing Strategy and Competitive Advantage in the Vehicle Tracking Industry: The Case of Car Track Kenya Limited

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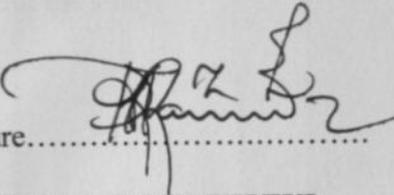
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Declaration

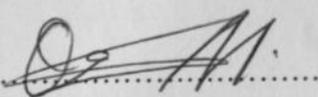
I declare that this project is my original work and has not been submitted for a degree in any other university.

Signature.....

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This project has been submitted for examination with my approval as the University Supervisor

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Dedication

I dedicate this work to my lovely wife Jelibina for her inspirational support and my children, daughter Vivian, sons Ian and Brian for their love and encouragement throughout the study.

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Table of Contents

Declaration.....	ii
Dedication.....	iii
Acknowledgement.....	iv
List of Tables	vii
List of Abbreviations	vii
Abstract.....	ix

Chapter 1: Introduction

1.1 Background of study.....	1
1.1.1 Licensing Strategy	2
1.1.2 Sources of Competitive Advantage.....	3
1.1.3 Motor Vehicle Recovery Industry.....	8
1.1.4 Cartrack Kenya Limited.....	8
1.2 Statement of problem.....	10
1.3 Objectives of the study.....	10
1.4 Importance of the study.....	11

Chapter 2: Literature Review

2.1 The Concept of Strategy.....	12
2.2 Competitive Strategies.....	14
2.3 Competitive Challenges.....	16

Chapter 3 Research Methodology

3.1 Research Design.....	18
3.2 Data Collection.....	18

3.3 Data Analysis.....18

Chapter 4: Data Analysis and Findings

4.1 The Company.....19

4.2 Challenges facing the Company.....20

4.3 Licensing Strategy and Competitive Advantages21

4.4 Licensed Technology / Product22

4.5 Marketing Strategies24

4.6 Competition in the Market.....26

Chapter 5: Conclusion

5.1 Summary, Discussions and Conclusions.....28

5.2 Limitations of the study.....29

5.3 Suggestions for further Research30

5.4 Recommendations for Policy and Practice.....30

References.....32

Appendices.....36

List of Tables	Page
Table 1: Turnover and Profits for 5 years.....	19
Table 2: Value of recoveries in 5 years	26

List of Abbreviations

- VLU Vehicle Location Unit
VHF Very High Frequency
GPS Global Positioning System
USA United States of America

Abstract

This data was collected during the month of July 2006. The objective of the study sought to determine the Competitive Advantages gained by Car Track Kenya Limited in its Licensing Strategy. The design used was a case study of Car Track Kenya Limited. Both primary and secondary data was collected from the target respondents consisting of Managers drawn from Car Track Kenya Limited. Open – ended questionnaire was used to collect data, eliciting a response rate of 92%. Content analysis was done in drawing conclusions. The finding of the analysis revealed Car Track Kenya Limited has indeed gained Competitive Advantages from its Licensing Strategy. Research and Development expenses are incurred by the Licensor; the Licensor supports marketing and technical efforts of the company and has given the company exclusivity in installing and operating the system within East Africa region.

On policy and Practice the results have the following implications; the Insurance Companies need to consider the service as mandatory for high premium vehicles, the government to consider revising taxes downwards to make the product affordable to majority of motoring publics and provide enabling environment for Licensing arrangements between local and international corporations to thrive.

Chapter 1: Introduction

1.1 Background

From a commercial perspective, licensing involves the weighing of the economic advantages of licensing against other methods of bringing the products/services into the country. Firms license out their technology, trademarks or other propriety advantages in order to generate additional revenue or profits. International firms go abroad for reasons that can be categorized as either aggressive or defensive. However all of these reasons can be linked in some way to the desire to increase (aggressive) or protect (defensive) profits, sales and markets. Licensing helps firms become and remain international in scope. As companies/ firms come to grips with an increasing competitive global environment, strategies to penetrate international markets become important. These strategies are practiced when the home market perspective is no longer enough. Licensing has therefore provided a rapid and inexpensive route to world market through market development strategy.

Market development strategy dictates that an organization introduces its products to markets other than those it is currently servicing. This includes introducing existing products to different geographical areas (geographical expansion) to different buying publics (Kerin R.A et al 1997). Reaching new markets often requires modification of the basic offerings, different distribution outlets or change in sale effort and advertising. Market development strategy involves careful consideration of competitor strengths and weaknesses and competitor retaliation potential. The firm must understand the number of the buyers, motivation and buying patterns in order to develop marketing activities successfully. The firm must consider strengths in terms of adaptability to new markets in order to evaluate the potential success of the venture.

1.1.1 Licensing Strategy

International competitiveness has now evolved to a level of sophistication that many term globalism - global competition, characterized by networks that bind countries, institutions and people in an interdependent economy. The invisible hand of global competition is being propelled by the phenomenon of an increasingly borderless world. In other words, trade of goods among countries has grown faster than the world production of goods.

The escalating level of involvement and competitiveness makes it imperative that managers develop skills needed to be effective in cross-national interactions and in the daily operations in foreign markets.

Licensing is a contractual arrangement whereby the licensor (selling firm) allows its technology, patents, trademarks or other proprietary advantages to be used at a fee by the licensee (buying firm), (Beamish et al.1990). It is an approach to internationalization that requires less time or depth of involvement in foreign market as compared to export strategies, joint ventures and foreign direct investment (FDI). Arrangements for the licensing of patents are among the oldest and most common forms of know-how contracts. Many companies use no other, and rapid increase has taken place in recent years. The typical licensor possesses a patent for a product, which has already established itself in the domestic market, and for which a foreign demand has been proven.

Dess and Origer (1980) stated that organizations must look beyond the immediate operating environment in order to thrive and compete favorably. Instead of just defending their existing markets, companies can use their success at home as a platform to extend their reach overseas through licensing and other modes, helping them reap added revenue, scale economies and new insights.

While the fear of competitor rates high among companies considering licensing, the problem most often reported by experienced operators is more immediate trouble with licensees. The essence of the deal is that the principal puts in the technical knowledge and the local collaborator handles the market, sources for finance and production. When the

licensee proves inadequate, the licensor either has to alter the arrangement by seeking up a subsidiary, seeking another collaborator or withdrawing or injecting some skills which the licensee lacks, making the project more costly than had been anticipated.

The reverse is the case when the hopes for a successful product are particularly high and the licensor presses for maximum royalties. One ironical feature of licensing is that of problems generated by success. This partly arises from the difficulty of determining which partner has contributed most to the success: was it the technology or was it rather the marketing? Some agreements anticipate difficulties by stipulating payments on a sliding scale, but there is still scope for disagreement on how income is shared.

Another problem of success arises when the business outgrows a small license. This arises when the expectations of the licensor were too low in the first place. When the income is regarded as small extra return on a project that is already viable, there is tendency to make too little demand in the original negotiations. Equity participation by both the licensor and licensee is helpful for equitable compensation and commitment to the ideals of the agreement.

1.1.2 Sources of Competitive Advantages

Competitive advantage is derived from combination of product appeal, pricing practices, distribution capability amongst others. Outstanding companies usually obtain their competitive advantage from more than one source. Ideally competitive advantage should be sustainable in the strategy that provides the firm with unique characteristics that cannot be initiated or imitated by competitors.

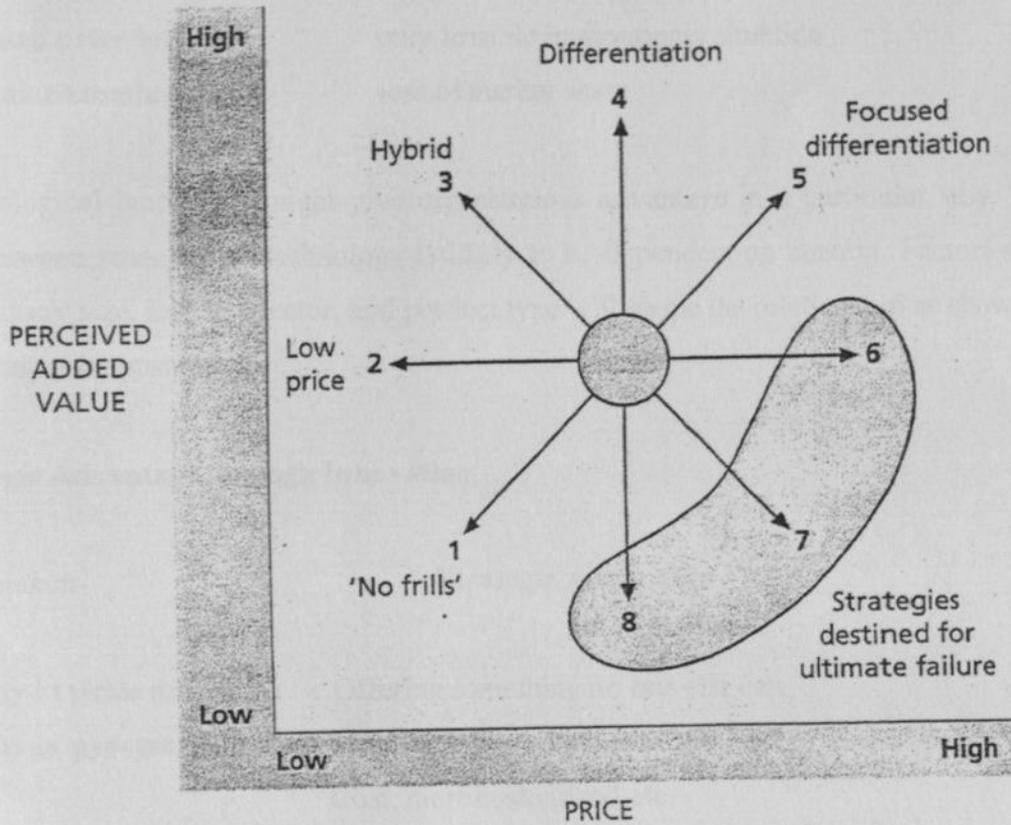
The essence of strategy is choosing a unique and valuable position rooted in systems of activities that are much more difficult to match. To achieve this, an enterprise must choose to pursue one of the generic competitive strategies; Differentiation, Cost Leadership or Focus Strategy or Hybrid Strategies. Wright et al (1990). Generic market options allows organizations achieve competitive advantage by providing their customers

with what they want, or need, better or more effectively than competitors; and in ways which their competitors find difficult to imitate.

Fig 1. Adapted from the work of Cliff Bowman

Source: Exploring Corporate Strategy, sixth edition page 320

The strategy clock: competitive strategy options



Needs/Risks

'No frills'

Likely to be segment specific

Low price

Risk of price war and low margins; need to be cost Leader

Hybrid

low cost base and reinvestment in low price and Differentiation

Differentiation

a) Without price premium	perceived added value by user, yielding market share benefits
b) With price premium	perceive added value sufficient to bear price premium
Focused differentiation	perceived added value to particular segment, warranting price premium
Increase price/standard value	higher margins if competitors do not follow; Risk of losing market share
Increased price/low value	only feasible in monopoly situation
Low value/standard price	loss of market share

Technological innovation might give organizations advantage in a particular way. The link between strategy and technology is likely to be dependent on context. Factors such as company size, industry sector, and product type will shape the relationship as shown in following relationship.

Strategic Advantage through Innovation

Mechanism

Strategic Advantage

Novelty in price or service	Offering something no one else can
Novelty in process	offering it in ways others can't match, faster, lower Cost, more customized etc.
Complexity	Offering something which others find difficult to master
Legal protection of Intellectual property	Offering something others cannot do unless they pay you a license or other fee
Robust Design	Offering something which provides the platform on Which other variations and generations can be built
Rewriting the rules	Offering something which represents a completely New product or process which makes the old one Redundant

Adapted from: Abridge version from J. Tidd, J. Bessant and K. Pavitt

Source: Exploring Corporate Strategy: Sixth Edition page 153.

Successful organization will be those where there is a strong commitment to innovation from senior management and business acumen based on an understanding of the business strategy and technology relationship. There needs to have a creative climate where innovation is fostered, communication is extensive and where there is a culture of learning organization. Structures and processes must facilitate the creation of this environment and provide a commitment to individual and team development. It must support individuals who will champion and facilitate the exploitation of technology for strategic success.

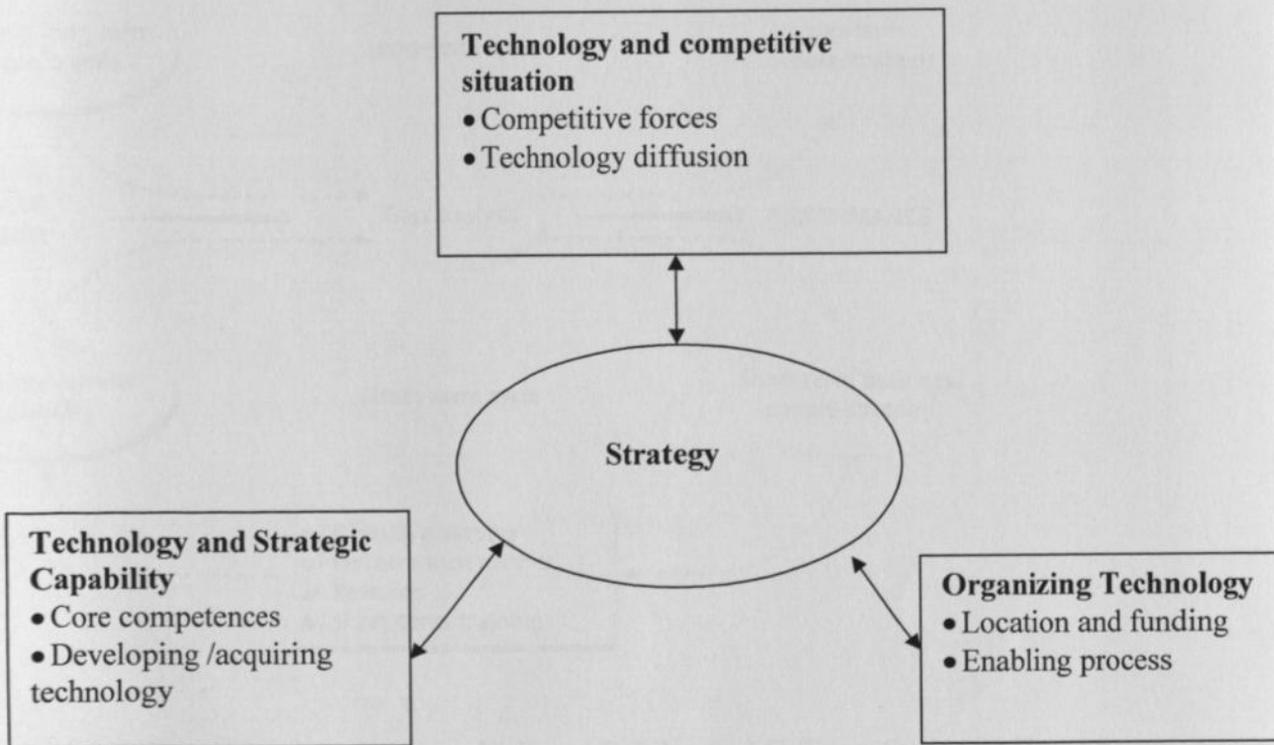


Figure 2. Strategy and Technology

Source: Exploring Corporate Strategy: Sixth Edition page 514.

Human Resource Strategies must also be able to support strategies of an organization through the short-term cycle of HR activities of objective setting, performance appraisal, rewards and training. They must be able to transform the organization and be a platform from which new strategies can be built – through the long-term cycles of Human Resource issues- competence, culture, leadership and organization. Those organizations that are competent in managing these processes are likely to gain competitive advantage.

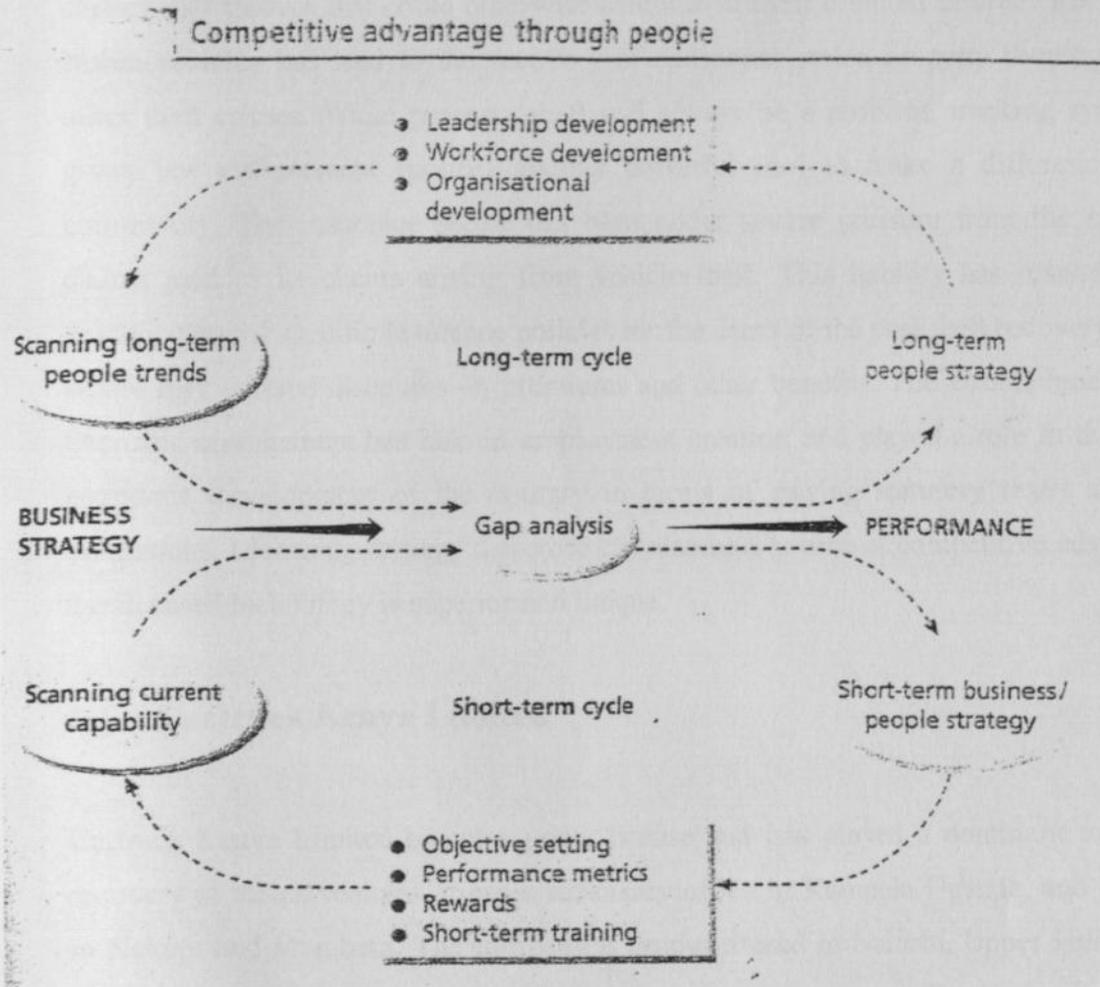


Figure 3. Adapted from L. Gratton, V. Hope, P Stiles and C. Truss Strategic Human Resource Management, Oxford University Press.

Source: Exploring Corporate Strategy, Sixth Edition page 489.

1.1.3 Motor Vehicle Recovery Industry

This is relatively a new industry that is engaged in assisting the police to combat auto crime. The majority of companies in motor vehicle recovery companies operate under licensing agreement. The licensing arrangement has enabled law enforcement arm of government and the Kenyan community to benefit from the immediate capture of carjackers / thieves that could otherwise continue in their criminal efforts. Recovery of stolen vehicles has lead to the recovery of additional stolen property thereby solving other theft crimes. While property theft will always be a problem, tracking system has given law enforcement (police) another powerful tool to make a difference in the community. The insurance sector has been under severe pressure from the enormous claims paid to its clients arising from vehicle theft. This liability has resulted in the development of specific insurance policies for the users of the post theft recovery System where they offered discounts on premiums and other benefits. The establishment of the licensing arrangement has help in employment creation and played a role in the overall economic development of the country in terms of paying statutory taxes and other obligations. Licensing strategy therefore can also be a source of competitive advantage if the licensed technology is superior and unique.

1.1.4 Cartrack Kenya Limited

Cartrack Kenya Limited operates under license and has played a dominant role in the recovery of stolen vehicles. It has a subsidiary office in Kampala Uganda, and Branches in Nakuru and Mombasa. The company is headquartered in Nairobi, Upper Hill and was incorporated in 1995 as the pioneer post theft recovery Company. The Cartrack system is based on the Car Search System developed and licensed by Lojack in USA. It was launched in response to the alarming increase in motor vehicles thefts in Kenya in recent years. The Cartrack Stolen Vehicle Recovery System is a small wireless radio- frequency transceiver that is hidden in a vehicle in one of 20 possible locations. Once the vehicle is

reported stolen to the police, the company computers match the vehicle identification number to the Cartrack system. After the match, the Cartrack system is automatically activated, emitting silent radio signals from the small radio transceiver. Law enforcement officers and Cartrack technology follow these signals, which lead to the stolen vehicle. Although it does nothing to stop individual crimes, by making it easier to catch criminals after the fact, Cartrack may make auto theft less attractive overall.

LoJack spent many years developing and testing this unique patented technology before it became available to the public. In July, 1986, the System became available in Massachusetts as a market experiment. Subsequently in 1989 the Federal Communications Commission, satisfied with the test and success of the technology, approved the LoJack System for marketing to consumers, and allocated a police radio band for operation of a nationwide Stolen Vehicle Recovery Network, using the patented LoJack technology. LoJack Corporation leverages its superior technology, direct connection with law enforcement and proven processes to be the undisputed global leader in tracking and recovering valuable mobile assets. The company's Stolen Vehicle Recovery System delivers a better than 90 percent success rate in tracking and recovering stolen cars and trucks and has helped recover more than \$3 billion in global assets. The system is uniquely integrated into law enforcement agencies in the United States that use LoJack's in-vehicle tracking equipment to recover stolen assets, including cars, trucks, commercial vehicles, construction equipment and motorcycles. Today LoJack operates in 26 states and the District of Columbia, and in more than 27 countries throughout Europe, Africa, Latin America and Asia. The Lojack system is the most widely used stolen vehicle recovery system in the world.

Cartrack has a countrywide radio frequency granted by Communication Commission of Kenya. This has enabled the Company to track vehicles throughout Kenya and neighboring countries. The license advantages have helped Cartrack to built strong business relationships in the domestic automobile and insurance dealer channels where they market with confidence a profitable recovery Cartrack system / product. The licensing arrangement has allowed the development of unique software and databases that support law enforcement to facilitate quick recovery of stolen vehicles.

1.2 Statement of the Problem

Various studies have predominantly focused on competitive strategies and advantages. Kibiru (1999) studied how competitive advantage would be achieved through differentiation of market offerings, “the case of chemical Fertilizers importing companies in Kenya. Karanja (2002) studied Competitive Strategies in the Real Estate, the perspective of Porters Generic Model. Theuri (2003) gave an insight on Competitive Strategies adopted by Branded Fast Food Chains in Nairobi. Gitonga (2003) looked at the application of Porters Generic Strategies in the Hospitality Establishments in Nairobi and Letting (2003) explored the relationship between technology and competitive advantage ‘the case of vegetables and animal oils and fats manufacturers in Kenya.”

From the foregoing literature; evidently most studies have concentrated on competitive strategies. None has dealt with the competitive advantages gained from licensing strategy in the motor vehicle recovery industry, a task the current study proposes to address. This is an important area of study yet neglected. The current study focuses on this gap by trying to determine competitive advantages gained from licensing strategy as a vehicle of international trade, the competitive strategies and choices that company adopts in the turbulent environment. The study will also seek to identify how licensing strategy and competitive advantages relate through a well thought out licensing strategy.

1.3 Objectives of the study

The objectives of the study is

To determine the competitive advantages gained by Cartrack Kenya Limited in its Licensing Strategy

1.4 Importance of the study

The study is expected to be of significance and relevance in the following ways:

First the study will be useful to the existing managers and the owners of the enterprise in drafting strategies and plans to maintain their market share and understand issues related to licensing arrangement. It will also provide information on the general state of competition and the strategies, which other firms are using to compete in the industry. This knowledge will help position the business in the right direction. The second significance is that it will help the government especially the security arm in setting out the strategy agenda in curbing carjacking crime. This will be facilitated by provision of tools of work, motivational packages and the appropriate working environment. The third importance's is that investors will use the study as a guide in considering licensing strategy as an option of investment in foreign / neighboring countries. The study will also provide information on some critical challenges they will need to adopt in order to be successful. The fourth importance's is that the study is expected to add knowledge to the existing literature and stimulate further research in the industry thereby increasing the body of knowledge in the area of study.

Chapter 2: Literature review

Organizations are environment dependent. No organization can exist without the environment. They depend on the environment for their survival and they have to scan the environment in an effort to spot budding trends and conditions that could eventually affect the industry and adapt to them (Thomson and Strickland, 1993).

In any industry, be it attractive or not, some companies will always outperform others. Every company has to have some degree of competitive advantage in order to survive. When this advantage is minimal, companies usually struggle to remain profitable and ensure growth. The basis for generic strategies implies different organization, control procedures and incentive system. Large firms with greater access to resources typically compete on cost leadership and differentiation basis, whereas smaller firms often compete on focus basis.

Today's dynamic markets and technologies have called into question the sustainability of competitive advantage. Under pressure to improve productivity, quality and speed, managers have embraced various tools (Total Quality Management, Benchmarking, Re-engineering etc). Dramatic operational improvements have resulted, but rarely have these gains translated into sustainable profitability. As organizations push to improve on all fronts, they move further away from viable competitive positions. Porter (1996) argues that operational effectiveness, although necessary for superior performance, is not sufficient because its techniques are easy to imitate.

2.1 The Concept of Strategy

Central in the strategic management process is the concept of strategy. Strategy can be defined as the broad program of goals and activities that help a company achieve success. Strategy is a match between organizations resources and skills and the environmental opportunities and risks it faces and the purposes it wishes to accomplish (Schendel and Hofer 1979). This statement emphasize the environment is constantly changing and

therefore imperative for an organization to adapt its activities to reflect new environmental requirements. Having a strategy enables a firm's day-to-day decisions fit in with long-term interest of an organization. Without a strategy, decisions made today could have a negative impact on the future results (Bruce and Langdon, 2000).

Strategy can be viewed as building defenses against competitive forces or finding positions in the industry where forces are weakest (Pearce and Robinson 1997). Porter (1980) also noted that strategy is all about competition and trying to gain competitive advantage. In the context of the modern business organization, the editor of the Harvard Business Review described strategic decision making as follows: "Agreements reached by the top management about companies ability to outdo its competitors, as a result of having investigated market opportunity, appraised the distinctive competences and total resources of the company and combine opportunity and resources, consistent with economic goals, personal values, and ethical aspirations that define the character of the company" Andrews, 1981, p 180). Therefore strategy can be expressed as a game plan to outdo competitors.

Batemand and Zeithani (1990) assert that strategy is a pattern of actions and resources allocations designed to achieve the goals of the organization. The strategy that an organization implements is an attempt to match the skills and resources of the organization to the opportunities found in the external environment. The decision and actions taken will lead to the development of an effective strategy, which will help to achieve organizational objectives (Jauch and Glueck, 1988).

The major tasks of managers are to assure the survival and success of the companies they manage. In order to achieve success the companies have to adequately adjust to meet the environmental challenges. Failure to do this will cause the company to experience a big strategic problem. The problem will arise out of the mismatch between the output of the company and the demand in the market place. Strategy therefore becomes a tool, which offers significant help for coping with turbulence confronting the firm. Strategy requires

to be taken seriously as a managerial tool, not only for the firms but also for broad spectrum of social organizations (Ansoff and McDonnell, 1990)

2.2 Competitive Strategies

Ansoff (1988) defines competitive strategies as distinctive approach, which a firm uses or intends to use to succeed in the market. In examining the scope of competitive strategies different authors have approach the concept from different angles. However studies in this area have been largely the work of Michael Porter, who defines competitive strategy as the art of relating a company to the economic environment within which it operates. Strategy is the thread that links the organization and it's environment. Porter (1998) explains that every firm competing in an industry has competitive strategy whether explicit (developed through formal planning process) or implicit (has evolved through the various functional planning activities of the firm.)

Competitive strategies provide a framework for the firm to respond to the various changes within the firm's operating environment. Firms also develop competitive strategies to enable them seize strategic initiatives and maintain a competitive edge in the market (MacMillan, 1988, Porter 1998). This may involve changes in the human resource, finance, operational system and policies that guide the firm's strategic thrust. The firm must strive for a good fit between the skills people have and every day jobs they do (Trahant, 1997).

At a broader context, formulation of competitive strategy involves considering four factors that determine the limits of what a company can successfully accomplish. These are firm's strengths and weaknesses, industry opportunities and threats, personal values of the key implementers and broader societal expectations. Porter (1988) identified three generic competitive strategies that can be viable in the long-term i.e. cost leadership, differentiation and focus.

Porter (1998) also developed an analytical framework, which can be used to develop competitive strategies in industry environment. He focused on the analysis of industrial

structure and competitors using the five forces that determine the state of competition in the industry namely. The threat of new entrants and the ease with which competitors can enter the industry; Threat of substitute's product and services that make it difficult for firms to raise prices; Bargaining power of suppliers; Bargaining power of buyers; Jockeying for positions or the extent of competition among the existing firms.

According to Porter, developing competitive strategies is developing a broad formula for a business to compete. The goals of competitive strategy are focused towards gaining a competitive advantage, cultivating clientele of loyal customers and outperforming rivals ethically and honorably. This will consist of moves by the firm to attract customers, withstand competitive pressures, and strengthened their market position. Porter articulated the key aspects of a firm's competitive strategies on what he called "The Wheel of Competitive Strategies"

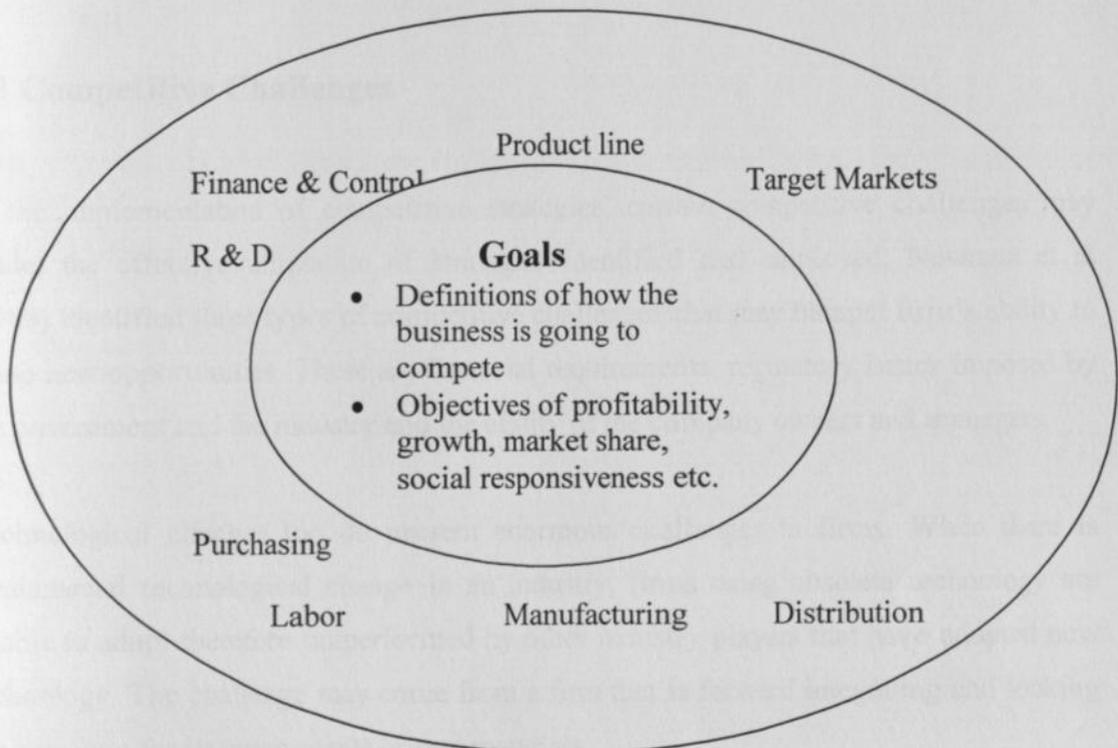


Figure 4. The Wheel of Competitive Strategies.

Source - Porter M. Competitive Strategy, The Free Press, 1998.

In the hub of the wheel are the firm's goals, which are its broad definition of how it wants to compete and its specific economic and non-economic objectives. The spokes of the wheel are the key operating policies with which the firm is seeking to achieve these goals. The operating policies vary from industry to industry based on the critical success factors.

In order to address specific issues in the study, it is important to identify specific aspects that will be used to identify the competitive strategies adopted by the firm in the security industry. Ansoff (1988) refers to them as distinctive approaches, which a firm uses or intends to use to succeed in the market. Bennet (1999) calls these critical success factors and what Porter (1998) refers to as policies / tactics used to achieve the objectives of competitive strategy. Some common critical success factors are product quality, customer care; ease of product modification; appealing features and the ability to fulfill a clear market need (Bennet, 1999).

2.3 Competitive Challenges

In the implementation of competitive strategies, certain competitive challenges may hinder the effective utilization of strategies identified and employed. Newman et al (1989) identified three types of competitive challenges that may hamper firm's ability to grasp new opportunities. These are financial requirements, regulatory issues imposed by the government and the industry and the ability of the company owners and managers.

Technological changes too do present enormous challenges to firms. When there is fundamental technological change in an industry, firms using obsolete technology are unable to adapt therefore outperformed by other industry players that have adopted new technology. The challenge may come from a firm that is forward integrating and looking for new uses for its components or raw materials.

Environmental changes have posed as a challenge to managers. Whether a firm is able to meet its environmental challenge is general management dependent. The propensity and

the ability of the organization to embrace behavior that leads to the attainment of its near term and long-term goals are what are called general management (Ansoff, 1999). The mentality and power positions adopted by managers constitute an optimal climate setting and it does influence the culture that develops in the organization. The challenge of doing business in a fast changing environment have forced managers to break up bureaucratic 'silos' that fragmented energy upwards in firm's instead of outwards to customers replacing them with boundary-less communication networks that have nurtured self direction work groups guided by ownership and accountability (Behr, 1998). Today's managers must rely on core values to keep the organization well centered and balanced. Value based management offers manager an opportunity to affect the organization's culture positively and powerfully.

Challenges in the implementation of generic strategies as illustrated by Porter (1998) in terms of risks are; Technological change that renders the investment in technology and learning worthless; Low cost industry learning by new comers through imitation and the use of new technology; Inflation in costs of inputs that increase the firms costs; The consumers need for differentiating of product factor falls; Imitation can narrow perceive differentiation; Difference in desired products between the strategic target and the market; Competitors break into the target market and outlay the focuser.

In implementing strategy, firms face challenges such as inadequate financial resources, costly sources of funds, skills and ability of staff, marketing abilities, and changes in customer needs, government requirements and the complexity of coordinating all the firm's activities in pursuit of the agreed strategy (Porter 1998, Grant 1998, Ansoff 1990)

Chapter 3: Research Methodology

3.1 Research Design

The study is limited to a case study of Cartrack Kenya Limited. It was conducted to determine the competitive advantages gained by Cartrack Kenya Limited in its licensing strategy and identify challenges that are associated with Licensing. The aim of the study is to document how licensing strategy has brought about competitiveness.

3.2 Data Collection

In - depth personal interviews was carried out to determine the competitive advantages accruing to Car Track from licensing strategy. The research used primary data from interview (see appendix) making use of open-ended questions that do not limit respondent's answers.

The researcher gathered primary and secondary data from the following respondents who are knowledgeable on relevant information from Cartrack Kenya Limited namely Managing Director, Sales and Marketing Manager, Operations Manager, Operations Officer, Technical Manager, Human Resources Manager, Customer Relations Manager, Control Commander, Country Manager – Uganda, Branch Manager – Nakuru and Branch Manager – Mombasa. The questionnaire will be administered in various parts i.e. from Parts 1 to 6 in an order that will be convenient to the respondents.

3.3 Data analysis

Content analysis was done. Completed interview guide was edited for completeness and consistency. Content analysis does not restrict respondents on answers and has potential of generating more information with much detail and clarity.

Chapter 4: Data Analysis and Findings

4.1 The company

The company opened its doors to the motoring public in September 1997, and had its pioneer recovery in November the same year. The company is 100% owned by Kenyan entrepreneurs and companies, with seven board members. The company has optimized on the licensing strategy and has consistently been in expansion path, opening its first subsidiary, Tracker Uganda Limited in January 2001. Plans are also underway to open an operational office in Tanzania, Dar es Salaam. The company has religiously operated within the licensing agreement duly signed with Lojack Corporation in 1996. The agreement gives the licensee the exclusivity to install and operated the system within the East Africa territory, within the terms approved by the Licensor. To operate the system, the company sources for the required product (Vehicle Location Unit - VLU), software and interface software exclusively from the Licensor. Over the years the company has offered upgraded product from Lojack VLU 1 in 1997 to the current version VLU 5, packaged with enhanced capabilities that meet changing customer needs.

The company's critical stakeholders include the Customers, Shareholders, Kenya Police, Insurance Providers and Brokers, New and Used Motor Vehicles dealers among others.

The financial performance of the company for the past 5 years has shown a consistent growth, posting impressive profits.

Table 1: Turnover and Profits for 5 years

Years	2001	2002	2003	2004	2005
Turnover	76,447,600	130,124,780	72,224,020	85,839,110	89,050,295
Profit	(3,499,080)	10,361,575	4,030,910	16,522,750	25,376,270

Source: Finance Department

The total numbers of employees stand at 121, consisting of 29 technical staff and 92 non-technical staff who are on permanent employment. The organizational structure of the company has changed over the 5 years in an effort to adapt the company to the changing business environment.

4.2 Challenges facing Car Track

The respondents identified key challenges facing the company as follows:

i. Limited product range – relying solely on the licensor

The respondents were of the view that the company is restricted on the product range as it has to rely solely on the licensor for new products. They unanimously indicated that the License agreement restrictive and does not allow the company to offer any similar or competing products to the customers.

ii. Internal Inefficiencies in record keeping

The company has not been able to integrate motor vehicle tracking system and the accounting system thus affecting timely invoicing and records.

iii. Infrastructural upgrade

The company technically relies on the Licensor when there is an upgrade requirement on the infrastructure. In some instances the upgrade equipments from the Licensor are too expensive and the company has to content with those prices as the Licensor is the sole supplier.

iv. Financing other Companies (inter- company transactions)

The respondents indicated that Car Track has been financing other closely related companies and this has adversely affected its cash flow position and its performance.

v. Inadequate allocation of resources

The company has been competing for management attention and investment resources with other closely related companies. Respondents indicated that Car Track has not been given resources that match its contribution in profits.

vi. Changing Models of Motor vehicles

The respondents indicated that motor vehicle models have regularly changed requiring regular refresher courses for installations technicians.

vii. Changing carjacking tactics and escape routes

The respondents strongly indicated that Carjackers have changed their tactics to elude law enforcers. Carjackers steal vehicles from their parking at odd hours, leading to late reporting that minimizes chances of recovery. The stolen vehicle is driven through undesignated rough roads in order to by pass police roadblocks. This has been one of the critical challenges during recovery process.

viii. Logistical requirements during recovery and hostile neighbors

The respondents indicated that, the requirement for clearance to track in neighboring has allowed carjackers time to temper or strip the vehicle to parts. Some neighboring governments are hesitant to allow Car Track to track stolen motor vehicles within their territories or are too hostile for any tracking to be effective.

4.3 Licensing Strategy and Competitive Advantages

The respondents indicated that the choice for Licensing Strategy was both spontaneous and deliberate. It was spontaneous because the government arm charged with the responsibility of curbing Auto theft lacked superior tools to minimize escalation of auto crime. It was deliberate because it was a business opportunity and the technology that matched the prevalent Auto theft was availability through licensing arrangement. The shareholders negotiated the details of the agreement and provide the funds for its set up, thus side stepping Research and Development expenses.

The respondents identified some of Competitive Advantages gained through Licensing Strategy as follows:

- 1) The company is able to offer a researched and tested product to the local market and also export it to the regional market. The system is time-tested radio frequency based theft protection solutions that has supported the country's law enforcement agencies that leverage the system to track and recover VLU-equipped vehicles when they are reported stolen.

- 2) The company has gained from the technical training the technical staff received during the launch and after. The Licensor has occasionally sponsored licensee's personnel to visit the manufacturing site, when a new product is being introduced or upgraded to the market.
- 3) The company has also gained from the Licensor in terms of marketing materials support supplied on regular basis.
- 4) The Licensor has also given the company exclusivity in installing and operating the system within East Africa territory.
- 5) The company prides of an association with a successful company offering successful product, which is also offered in more than 27 other countries around the world.
- 6) The government recognizes the severity of the problem for its citizens and has been instrumental in supporting company in its recovery efforts. A comprehensive working relationship exists, the company offices are home to a police base.
- 7) Cartrack products are recognized by automobile dealerships and Insurance Companies.

The respondents identified the above as critical advantages of Licensing Strategy. These advantages have positively supported the advancement of the company. The respondents indicated that Managers are empowered to make strategic decisions toward the future of the company, but any decision that infringes on the License Agreement is entirely adjudicated by the Board.

CCK is one of critical stakeholders in the tracking business. It regulates issuance of Licenses and the Cartrack operates a frequency assigned by CCK. For every unit of VLU sold to customers, Cartrack levies and collects a CCK fee on behalf of CCK. This in essence has pushed up the price of the VLU unit.

4.4 Licensed Technology/Product

The respondents were unanimous on the relationship between Lojack and Cartrack Kenya Limited. The License, Trademark and Supply Agreement between Lojack International Corporation (Licensor) and Car Track Kenya Limited is very elaborate and covers

Trademark License, Software License, Proprietary Information, Payment, Pricing and Terms, Territory among other aspects.

The agreement has territorial covenant that allows Cartrack Kenya Limited to install and operate the system within East Africa Countries i.e. Republics of Kenya, Uganda and Tanzania only. Cartrack can only source and install Lojack software that supports the working of VLU from Lojack. The Licensor does not allow any peripheral accessories to be installed alongside the patented VLU, as they may interfere with working of the system. The licensed technology has been upgrade by Lojack severally. This is in response to the feedback they receive from the Licensees across the globe. It has been upgraded from Lojack VLU 1 to the current version of VLU 5, which has enhanced features. Cartrack has responded to the upgrades by upgrading its infrastructure in an attempt to remain at par with the Licensor in advancement in technology.

The market has attracted new entrance and Cartrack is exploring other technological areas in conjunction with Lojack in order to maintain its competitiveness. Some of the products that the company is in the process of rolling out include the following.

1) Cartrack Early Warning System

This is combined with the base system and automatically notifies consumers when their vehicle is moved without permission. It is an optional feature in the main system that alerts the owner by phone, e-mail or pager if the protected vehicle has been moved without authorization. A personal key sends a signal to the system to disable the warning if the owner has the vehicle.

2) Cartrack for Motorcycle

This is a system similar to Vehicle Location Unit (VLU) for cars. This product will be used to track and recover a stolen motorcycle. Motor cycle theft has increased pushing the need for the product. Car track is working out arrangements with Licensor to have the system in place soon. It is hoped this will open up new markets.

3) Cartrack for Laptops

LoJack Corporation (licensor) entered into strategic agreement with Absolute Software where Absolute licenses the LoJack brand for the computer theft recovery market that will leverage LoJack's brand and leadership position by incorporating the LoJack brand name into Absolute's computer theft recovery products. This product has been developed and soon be launched in Kenya under similar license arrangement. These additional products, the respondents said, will improve the Competitiveness of Car Track.

The respondents indicated that the command centre, which is the heart of all operations, has the capability of expansion and upgrading on need basis to accommodate the additional products. This upgrading program will be done in conjunction with Lojack Corporation (licensor).

The future of Licensing Strategy is bright as long as the country entirely relies on external solutions to solve home grown problems. For Cartrack, as long as the problem of vehicle theft escalates to an epidemic level - Cartrack System a proven track record of reducing damage, improving overall public safety, and solving serious crimes related to motor vehicle theft – will be required as a practical constraints to today's overburdened law enforcement systems.

4.5: Marketing Strategies

The respondents indicated that the licensor supports Car Track in marketing aspect, through support programs. This is where the licensor supplies marketing materials that are aligned to suite the local environment. Otherwise all the other marketing activities are conducted by Cartrack through Sales and Marketing department. Car Track has realigned its marketing strategies on the onset of competition. The company has entered into dealership arrangements with New and Motor vehicle dealers that facilitate installation to be done within the precincts of motor vehicle dealers. To blend the arrangement, an attractive commission arrangement has been entered with the sale people of the dealers. This arrangement has facilitated combination of effort that has resulted to over 200

installations by month. The company has also worked out a deal with insurance companies on insured motor vehicles. The same has been extended to the Matatu industry where special arrangement has also been worked out. A tailor made package has been agreed with the banks, where Cartrack covers all the motor vehicles bought by their customers on Loan. The Banks pays 3 years in advance for the service.

The respondents concurred that the advent of Competition has given Cartarck the ammunition to push the Licensor to develop sophisticated products that meet the changing security needs of the Customers. One of the developments is the VLU 5 which has been developed with enhanced features in direct responds to the customer needs. The respondents confirmed that other gadgets offered by competitors exist along side Cartrack System. There are a number of affordable and effective automobile theft-prevention options currently on the market. Barbed wire fences, deadbolt locks, steering wheel locks and brake pedal locks are the least expensive solutions, and both work to deter crime and carjackers. Clients are still attracted to alarms though it disturbs and annoys entire neighborhood. The respondents were unanimous that the silent alternatives like Cartrack System are slowly making audible alarms obsolete.

The respondents indicated that the biggest challenge that has faced the Licensing Strategy in the face of competition is convincing the Licensor to upgrade the product and the accompanying infrastructural improvements required to match the upgraded product. The migration from the old infrastructure required additional allocation of funds, operational disruptions and costly training of technical staff and users.

The respondents indicated that when a recovery is reported in the print and electronic media there is usually an upsurge in inquiries, payment of subscription and vehicles system check up. The highlighted recoveries are the sustained by a deliberate effort to announce the recoveries in both media; this usually sustains high sales volume for up to a month. The company works in partnership with police and all recoveries are made with their assistance. A recovered vehicle is usually booked in the nearest police station and the police officers attached to Car Track will be available to give evidence in court when a suspect is arrested.

The current recovery rate of the Cartrack stands at 98% compared to Lojack (Licensor) average of 95% overall. The respondents attributed the unaccounted 2% to vehicle stripping and hostile countries. For the last 5 years the statistical recoveries and their values were given as follows:

Table 2: Value of Recoveries in 5 Years

Years	Vehicles Recovered	Value of Recoveries (Millions)
2001	232	348.00
2002	199	298.50
2003	101	151.50
2004	105	117.55
2005	121	197.65
Total	758	1,113.2

Source: Car Track Database

Recovery of clients’ stolen motor vehicles enhances the confidants of the client in the system and increases the chance of repeat buy. Clients will also pass recovery information to other potential clients thereby pushing up sales volume. Recovery of a stolen vehicle is a yardstick of the effectiveness of the company and enhances the Licensing arrangement in place.

4.6 Competition in the Market

The respondents indicated that, the system is designed to assist law enforcement personnel in locating, tracking, and recovering stolen vehicles. Car Track offers specialized products for cars and heavy equipment. Car Track markets its products through direct sales force, automobile dealers as well as through company owned distribution centers. The company uses sophisticated direction-finding technology to locate the source of the tracking signal emitted from the Car Track Unit in the stolen vehicle.

A few attributes that set Car Track apart from competitors within East Africa region include:

Car Track has a brand awareness of 80%, higher than any other competing company.

It has a unique relationship with the police department.

There is significant barrier to entry in this market because of its well established network and relations.

Car Track unit costs Ksh. 50,000 per unit per vehicle. However, cars installed with the Car Track unit are eligible for a discount of between 10-20% on the comprehensive insurance.

Comparing Car Track and Track IT systems

The respondents indicated that the only near competitor in the tracking industry is Track IT which uses GPS technology in its recovery efforts. GPS has both advantages and disadvantages as compared to Cartrack system. GPS it is not hidden like the Cartrack Unit – a person driving a car knows whether or not, the car is GPS equipped. GPS works on Global Positioning System which is not capable of penetrating through all kinds of buildings and containers. Cartrack on the other hand works on RF and is capable of doing that. GPS system has advantages in that it provides other facilities, like road directions and assistance in case of an engine problem. It is worth mentioning that GPS based products are sold to companies owning a fleet of vehicles while Cartrack system is more for the individual consumer. The two are comparable to limited degree because the primary purpose of GPS technology is not vehicle recovery rather fleet management. The other close competitors include providers of alarms and locks, which are not substitutes to Cartrack system. The price difference between a Cartrack system and an alarm system is too much to be comparable.

Chapter 5: Conclusion

5.1 Summary, Discussions and Conclusions

The objective of the study was to identify the Competitive Advantages gained from Licensing Strategy. The administered questionnaire was subdivided into parts that covered brief company data and general issues, Licensing Strategy and Competitive Advantages, Licensed Product / Technology, Marketing Strategies adopted by the Company and Competition in the Market. The findings have been presented in descriptive format and tables. The findings of the study indicate that Car Track has gained Competitive Advantages from the Licensing Strategy as follows:

The company is privileged to use a time-tested radio frequency based theft protection solutions that has supported the country's law enforcement agencies that leverage the system to track and recover VLU-equipped vehicles when they are reported stolen. The company does not incur any Research and Development expenses to have the product in the market, thus a competitive advantage.

The Licensor has occasionally sponsored company's personnel to visit the manufacturing site, when a new product is being introduced or upgraded. This arrangement has helped the company to make use of internal technical competences and help in technological transfer.

The Licensor has often supported the company through exchange of marketing materials support. This has augmented marketing strategies of the company by blending home grown marketing strategies.

The Licensor has also given the company exclusivity in installing and operating the system within East Africa territory. The relationship has acted as significant barrier to new entry in the market since the company's inception. The agreement leverages the company to operate the system within East Africa as the sole supplier. This has

effectively placed the company in a position to compete favorably with other providers of competing solutions.

The government recognizes the severity of carjacking problem to its citizens and has been instrumental in supporting company in its recovery efforts. A comprehensive working relationship exists between the company and police department. This has been instrumental in recovery and retrieval of stolen vehicles within and outside the country. The company offices is home to a police base and this has given the company competitive edge as a selling point.

The company prides of an association with a Licensor offering successful product, which is also offered in more than 27 other countries around the world. The respondents indicated that, Clients associate the origin of the product with quality and success. The products are recognized by automobile dealerships, Insurance Companies and government agencies. High brand awareness in the market and consistent successes in recovering stolen vehicles has placed the company ahead of other competing solutions.

These advantages have positively supported the growth and market leadership of the company. The respondents indicated that Managers are empowered to make strategic decisions towards the future of the company, but any decision that infringes on the License Agreement is entirely adjudicated by the Board.

5.2 Limitations of the study

The limitations of this study could be summarized as follow:

- i. The company has no strategic plan and therefore an indication into future of the company as far as technological advancement where not available.
- ii. The company operates under license and the managers have to operate and report within the License Agreement which carried classified information.
- iii. The time for the research was short and it was not possible to cover the entire Scope and depth of the research.

- iv. The study was limited to case study and it may not be possible to generalize the findings to the industry.

5.3 Suggestions for further Research

The establishment of Licensing Strategy between Car Track Kenya and Lojack Corporation resulted in employment creation, technological transfer, reduction in Auto crime among other benefits. It is an inexpensive arrangement that has advantages to be gained. The introduction of other diverse products in the recovery of Assets are underway and this study will not study there impact in combating crime.

Since this study is case study, I recommend further study needs to be carried out that will cover the whole industry. The scope of the study to be expanded to cover the effectiveness of the police in combating Auto crime in the country or region. A further study is carried out on the impact of Car Track for Laptops technology which is soon to be launched in the local market. Another area that will require further research is customer perception on the available tracking systems in the market. Impact of recovery of a stolen Motor vehicle on Clients can be researched on in future.

5.4 Recommendation for Policy and Practice

All car owners, regardless of whether they have Car Track, reap the benefits of reduced auto theft. Since Car Track is associated with a sharp fall in overall auto theft, insurance companies should provide premium discounts for Car Track-equipped vehicles to reduce claims that result from carjacking. They also need to consider making Cartrack an inclusive product in their policies. Given the benefits that accrue from recoveries, the government needs to consider lowering taxes that are levied on the tracking gargets and strive to support the operations of companies which are involved in the recovery process by giving them armed back up personnel at minimum costs. Motor vehicle manufacturers and dealers need to encourage their customers to install inaudible security

gargets like Car Track in the vehicles they sale as one of the critical accessories. The government needs to identify gaps in service delivery and encourage Licensing Strategies between local and international companies and corporations to bridge the gaps in an effort to serving the public. The government needs to provide the necessary framework and legislation that encourages private companies to offer services that will supplement its efforts in recovery industry.

In conclusion the sale of cars is only going to grow and so will crime. Looking at the cost savings in insurance and evaluating the benefits of this system, a lot of people with expensive cars would want this system in their cars. If crime rates increase Car Track will benefit. Unobservable precaution like the Car Track car retrieval system will prevent crime for all in the vicinity. Individual automobile owners in high crime areas need to install Car Track because of the increased recovery rate and the lessened damage to Car Track - equipped stolen vehicles. Car Track will benefit from the market trend for some time before we see other competing superior technologies in the market.

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Appendices

Appendix 1: Letter of Introduction

Kamuren Dennis Kiptui,
School of Business,
University of Nairobi,
P.O. Box 30197,
Nairobi

6th July, 2006

Dear Respondents,

RE: REQUEST FOR RESEARCH DATA

I am a post graduate student at the University of Nairobi, School of Business. In partial fulfillment of the program Master in Business Administration (MBA) requirement, I am undertaking a management research project entitled:

Licensing Strategy and Competitive Advantages in the Motor Vehicle Tracking Industry: The Case of Car Track Kenya Limited

You have been selected as part of this study. This is to request you to assist me collect the data by filling out the attached questionnaire. The information you will provide will be used exclusively for academic purposes. My supervisor and I, assure you that the information you will give, will be treated with strict confidentiality. A copy of the final report will be availed upon request.

Your cooperation will be highly appreciated, thanking you in advance

Yours Faithfully,

.....
Kamuren Dennis K.

MBA Student

.....
Dr. Martin Ogutu

Supervisor

Appendix 2: Interview Guide (Questionnaire)

Please answer the following questions

Part 1: Brief company data

What is the size of the company in terms of annual turnover for the last five years?

What is the company's establishment by the year 2004?

Technical staff.....

Non-technical staff.....

Part 2: General Issues

Who are the company's critical stakeholders?

Has the company's structure changed in the last 5 years? What were the main causes?

Explain how the company has responded to the licensing challenges identified?

Are there internal constraints to the company's ability to respond to those challenges?

Has dependence of the company on the license affected the way the company has responded to the challenges?

What are the future strategies on licensing challenges that the company has not responded to?

Are there areas of marked improvement in the company for the last 5 years?

Part 3: Licensing Strategy and Competitive Advantages

How does the mission statement of Car track relate to that of the licensor?

What prompted the company's choice of licensing as a strategy of doing business?

How does the licensor support the advancement of the company?

Are managers empowered to make strategic decisions that may have bearing on the license?

What are the competitive gains/advantages the company enjoys from licensing?

What is the impact of CCK regulations on the performance of the company?

Part 4: Licensed product / technology

Is the licensor restrictive on the technology currently use by Car track

What is the frequency of technological changes in the licensed technology?

How has the company responded to these technological changes?

Which other technological areas does the company need to explore in order to maintain its competitiveness?

Does Command Center have enough technological infrastructures to effectively support recovery process?

What is the future of the licensed technology?

Part 5: Marketing Strategies

Does the licensor prescribe marketing strategies to be used by Car track?

Has the onset of competition affected the company's marketing strategies?

What are the licensing challenges Car Track faces on the entry of competition into the market?

How has the media publicity on recoveries impacted on sales volumes?

Has the security arm of the government been supportive on the company's recovery efforts?

What is your current estimated recovery rate? How does this match with the requirements of the licensor?

Does recovery have any bearing on your marketing strategies?

Does recovery rate have any bearing on the life of the license?

Part 6: Competition in the Market

Who are Cartrack main competitors in the market?

How has each aspect of Licensing helped Cartrack to out perform its competitors?

What is Cartrack's relationship with other Licensees?