DISTRIBUTION STRATEGIES AS A SOURCE OF COMPETITIVE ADVANTAGE BY NESTLE KENYA LIMITED

By

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DECLARATION

This research project is my original work and has not been presented for the award of degree in any other university or institution for any other purpose.

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This research project has been submitted for examination with my approval as University supervisor.

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DEDICATION

This research project is dedicated to my family for their inspiration, encouragement, understanding and prayers towards the successful completion of this course. I pay glowing tribute and gratitude to the Almighty God who has given me the wisdom to undertake this course.

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God bless you all.

ABSTRACT

The achievement of a competitive advantage is a major pre-occupation of managers in the present day business environment which is characterized by intense competition. In order to gain the necessary competitive advantage firms usually specific strategies including innovation, adopting effective distribution strategies and providing high quality products. Distribution strategies play a crucial role in the launch of new products to the market and the eventual acceptance and sales of a new product in the market as it determines the availability of the new product to customers.

The purpose of the study was to determine the role of distribution strategies as a source of competitive advantage at Nestle (k) Ltd. The study adopted a case study research design in which an interview guide was used to collect data and content analysis was used in analyzing the data. The study found out that the firm under the study derive competitive advantage through speed of offering the service, the added value, unique resources, superior quality of services, product and service diversity, service flexibility, differentiation strategy and unique corporate culture were adopted. Some of the distribution strategies employed includes warehousing, direct distribution, intense distribution as well as indirect distribution using middlemen. The distribution strategies adopted in the organization has led to a number of competitive advantage which includes the increase in area of coverage especially in the international market, edge competitors in making the products available to customers, increase in customer satisfaction through making the products available as well as addressing their concerns more promptly.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the study

In the 21st century business landscape, firms compete in a complex and challenging context that is being transformed by many factors from globalization to the frequent and uncertain changes to the growing use of information technologies (DeNisi*et al.,* 2003). Therefore, achieving a competitive advantage is a major pre-occupation of managers in the current competitive and slow growth markets that characterize many businesses. Businesses succeed when they possess some advantage relative to their competitors and gaining this competitive advantage is the objective of strategy (Porter, 1996). Corporations which gain competitive advantage in their industries usually adopt specific strategies including innovation, improved processes, higher quality, lower cost and marketing in order to achieve this goal.

According to Boddewyn (2004), competitive advantage can emanate from many sources or factors. These factors can be discriminated into "hard" factors such as physical assets, proprietary technology, flexible production systems, product portfolios, etc. and from "soft" factors including organization culture, tacit knowledge, management skill and experience, and relations with suppliers and/or distributors. They advocate the integration of market and non-market strategies as effective and necessary means for firms to compete in international markets where outcomes are generated by an interaction of economic and political forces, and where "excessive competition" is the rule in certain sectors. Thus, the most sustainable form of competitive advantage is one based on an interlocking system of hard and soft factors, combined with a successful position in the firm's non-market environment (in terms of legitimacy and political connections), plus adoption of a structure which maximizes bargaining leverage.

Economic distribution channel theory postulate that, the "ideal" distribution system or the normative distribution channel can be determined by exploring what the consumers want in terms of service outputs from the distribution channel, how much they are willing to pay for a given service level, how the services can be provided to them, and what the costs of the alternative distribution channels are (Stern *et al.,* 2006). As a result they argue that it can be determined which distribution system most efficiently meets the customers' wants and it can be pointed out that the distribution channel strategy adopted by a firm should take a customer perspective and analyse the output from the commercial part of the different distribution channels and relates it to the customers' costs and benefits from the different levels of service output offered by the available distribution channels (Cohen et al., 2003).

1.1.1 Distribution strategies as a source of competitive advantage

Distribution strategies management has evolved into a domain totally centered on "consumer experiences" and methods of providing and enhancing them (El-Ansary, 2005). Accordingly, the focal point in channel management when taking innovations to the marketplace would be the planning and implementation of positive consumer experiences through selection of channel mix, retail training in terms of physical stores, enriching experience at customer touch points, value-added services and consumer research that will provide long term competitive advantage for the firm. In addition, value chain management would focus on partnering with up-stream and down-stream activities for efficiency enhancement and cost control. Partnership innovation management (Kay, 1993) is a relevant application, combining elements of process and product innovation management within a network structure to meet customer expectations at an economic cost.

Walker *et al*. (2002) state that to achieve desired performance levels, a firm's strategies and the resources available to it must interact positively with the requirements of the firm's markets. Both capabilities and market requirements need to be clearly defined and as well as be considered during the strategy formulation stage. As was observed by Witcher and Chau (2008), a key concern in the emerging strategic performance management in the current business environment is the need for organizations to implement systems and frameworks that not only deliver performance improvements, but also the ability to control them against top level targets. They note that from such actions organizations will be able to gain a competitive advantage over other players in the market dealing with the same products and services.

Distribution strategies play a crucial role in the launch of new products to the market. Distribution is crucial in the eventual acceptance and sales of a new product in the market as it determines the availability of the new product to customers. Distribution decisions have a far reaching effect in an organization because changing them is both resource and time demanding and hence firms have to take great care in designing their distribution systems during the launch of innovations (Stern and Sturdivant, 1987). As a result an organization distribution strategy plays a role in enabling the availability and application of the product in the marketplace and therefore the distribution strategy employed by the organization would impact the nature of "market support" capability that can be provided to the innovation. Past research suggest that the launch stage absorbs the second largest part of the innovation budget after product development and that compared to failed products, successful ones had significantly more time allotted to them (Cooper and Kleinschmidt, 1988).

1.1.2 Competitive Advantage

Competitive advantage is the ability to earn returns on investment consistently above the average for the industry (Porter,1985). This therefore means that competitive advantage can be achieved if the firm implements a value-creating strategy that is not simultaneously being implemented by any current or potential competitors. This can be interpreted to mean that sustained competitive advantage results from strategic assets; which Barney (1991) regards as those that are internally controlled and permit the firm to formulate and implement strategies that expand its efficiency and effectiveness. Competitive advantage is thus dependant not, as traditionally assumed, on such bases as natural resources, technology or economies of scale, since these are increasingly easy to imitate. Rather, competitive advantage is, according to the resource base view, dependant on the valuable, rare, and hard-to-imitate resources that reside within an organization (Stiles and Kulvisaechana, 2004). This group of assets can be said to be what Stewart (1997) to be "invisible assets" which in real sense is intellectual capital.

Porter (1991) notes that, the competition strategy of a firm is to seek an advantageous competitive position in a particular industrial environment or to build up a profitable, consistent market position by drawing on various factors that are decisive to being competitive in an industrial sector. In other words, both industry type and competitive strategies are two central points to be considered by managers in a market economy. This therefore means that Porter's competition strategy explicitly relies on the pursuit of advantages, which are determined by a firm's exogenous variables that require analysis of the competitors and opportunities in the market. When a particular high-value strategy of a firm cannot be implemented, imitated or replicated successfully by a potential competitor, the strategy provides the firm with a source of sustainable competitive advantage (SCA). On his part, Oliver (1997) argues that both resources and institutional capital are indispensable to creating an SCA. The capability-based view of the firm also moves a step closer to understanding how enterprises develop and maintain their sources of competitive advantage. Hence for a firm to be assured of a sustainable development, it must identify its competitive advantage variables and harness the same to a maximum benefit.

1.1.3 Food and Beverage Industry in Kenya

The food and beverage industry enjoys high trust ratings 70 to 90 percent in both developed and developing economies. But consumers around the world are of the view that companies in this sector should improve their performance in health and safety, the environment and sustainability, and ethical business practices. Consumers emphasize three things that a food and beverage company should do to make them more inclined to choose its products over those of competitors: label products clearly with honest information, make them more healthy and nutritious, and reduce waste and pollution in manufacturing. However, these companies must do a better job of publicizing their green efforts.

With a fairly stable consumption level the industry expects increasing spending level in the years to come and its consequent increasing revenue, and more opportunities for companies to grow. While carbonated soft drinks have been dominant core products but in the last two years consumers have changed direction to more health drinks and replaces carbonated soft drinks with bottled water, fruit juices, low calorie and diet drinks. Consequently, manufacturers are forced to adopt brand extensions and introduce new brands and products to withstand their positions within the industry. After having analyzed the competitive environment and its elements, the organization must consider selection of its product market to operate and invest which would reflect on its investment strategies. Strategies then have to be developed and implemented as part of the business management process rather than isolated departmental strategies, Pearce and Robinson (2002).

1.1.4 Nestle Kenya Limited

Nestlé is the world's leading Nutrition, Health and Wellness Company. The organization is committed to increasing the nutritional value of their products while improving the taste. The organization achieve this through their brands and with initiatives like the Nutritional Compass and 60/40+. Since Henri Nestlé developed the first milk food for infants in 1867, and saved the life of a neighbour's child, the Nestlé Company has aimed to build a business as the world's leading nutrition, health and wellness company based on sound human values and principles. The organization overall strategy is to enhance brand image, change negative affordability perception and improve availability and visibility in retail trade.

Nestle company whose headquarters is in Switzerland started its operation in Kenya in 1967 and thereafter made the regional headquarters serving Kenya, Uganda, Tanzania, Democratic republic of Congo, Mozambique Mauritius and Angola. Nestle deals with Baby foods (Nan and Cerelac), Soluble Coffee (Nescafe), Beverages (Milo, Nestle drinking chocolate and Nestea), Breakfast cereals (Cerevita), Chocolate (Kit Kat) and Culinary (Maggi bouillon). Total beverages markets are estimated at 25 bio cups (Not including alcoholic beverages). Tea dominates the hot beverages category by 11.3 bio cups (representing 45% of the total market). Kenya, DRC, Tanzania and Uganda are the biggest tea markets, contributing 70% of the total tea market in East Africa Region, which reflect their contribution to the total population (60% of East Africa Region population). Tea consumption is mainly driven by appeal, availability and affordability.

1.2 Research Problem

As one of the key elements of a company's success, selecting the proper distribution channel strategy has been a focal point in both supply chain and marketing channel structure. The distribution strategy decision is usually based on finding the most profitable way to reach a market (Ford and Mottner, 2003). Successful distribution channel strategy selection, implementation, and management cannot only help to meet the shopping needs and habits of the target customers efficiently under the cost constraints of the seller; they must also mitigate the disadvantages caused by distribution channel conflicts such as double marginalization. According to Porter (1985), organizational competitive advantage can be achieved if the firm implements a value-creating strategy that is not simultaneously being implemented by any current or potential competitors. This can be interpreted to mean that sustained competitive advantage results from strategic assets; which Barney (2001) regards as those that are internally controlled and permit the firm to formulate and implement strategies that expand its efficiency and effectiveness. A firm's distribution strategy of its products and services is such a strategic asset.

The competition in the beverage market has been so intense in the recent past that the sales volume of Nestlé (K) Ltd beverage products has been reducing significantly in the last five years. The sales in 2011 stood at 4.34B as compared to 7.15B in 2007 and as a result the beverage division through its flagship Nescafe has had to come up with strategic measures to reverse the worrying trend resulting from the changes in the external environment as well as internal. One of these strategies is to restructure the firms' distribution strategies. Several competitors such as Africafe and a range of imported coffee beverages have found their way to the Kenyan shelves posing a big challenge to the local firms such as Nestle. These competitors have had to use different strategies including outsourcing some of the work of distributing their products which has posed a challenge to the already established players in the Kenyan market such as Nestle.

Several studies have been undertaken locally on the subject area of distribution strategies adopted by various local companies. Irimu (2009), undertook a research on the Effects of distribution strategies employed by sewing machine industry in Kenya on channel members; a case of Amedo Centres (k) Ltd. In her study, she found out that the location of the service facility is especially important for such business since many target customers may lack the funds for public transportation or they may feel psychologically uncomfortable to visit distance outlets and as a result, the company has had to avail the sewing machines near the target markets as well offering the after sale transportation services to the place of business. On her part, Alumila (2004) researched on the distribution strategies used by Health maintenance organization in Kenya. She found out that health care customers unlike other services value the face-to-face contact with the seller and also emphasise a trustful relationship. In Denmark, Katz and Aspeden (2007) found out that the Internet banking customers is very similar to the PC segment. The persons are connected to the Internet for the use of e-mail, for the search of information about special interests and do not put a high value on the personal relationship with the local bank, they are relatively price conscious, affluent and well-educated. From the above studies and with the researcher not being aware of any other local study done on distribution strategies as a source of competitive advantage in the case of a beverage company engaged in the international trade, this study wishes to fill in the gap and a result the study research question will be: how has distribution strategies adopted result to a competitive advantage to Nestle Kenya limited?

1.3 Objectives of the study

The objectives of the study were:

(i) To establish the distribution channel strategies adopted by beverage firms operating in Kenya

(ii) To determine the extent to which the strategies contribute to competitive advantage.

1.4 Value of the Study

This study will assist the management of the various beverage companies operating in the country to evaluate how effective their present distribution strategies serving them and how the same can become a source of competitive advantage business environment they operate in. in addition, the management of these firms will learn other more distribution strategies they can adopt; its opportunities and challenges that come with the adoption of the same distribution strategies. This may enable them identify gaps in their strategies which may enhance their strategic response as a result move to effectively manage the existing strategies which will improve their performance.

This study will benefit the government and especially the Ministry of trade, transport and finance in making policy decisions whose overall objectives will be to reduce bottlenecks in distribution of products and services by these beverage players and at the same time accelerate the rate of growth in the sector and take advantage of the improved economy. These ministries will get to know challenges faced by the industry players both nationally and regionally as they distribute their products in the market.

The study will also be useful to the shareholders of these beverage firms in evaluating the effectiveness of the organizations distribution strategies as they cope with the increasingly competitive operating market. Other organizations can also use the distribution strategies employed by the organizations to improve their performance. It will be useful to other researchers and scholars as it will contribute to the body of knowledge in the area of distribution strategies. In addition the study will be an invaluable source of material and information to the many other organizations in the industry operating in the country since all the sectors in Kenya have a great role to play in the quest to become a middle income country as envisioned in the Vision 2030. By identifying the appropriate distribution strategies, the industry will also be able to achieve their objective much faster and growth of the individual firms.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter highlights the major issues relating to the role of distributions strategies as a source of competitive advantage. It covers the distributions strategies adopted by manufacturing firms and how the same distribution strategies become a source of competitive advantage.

2.2 Distribution Strategies

Distribution strategies play a crucial role in the launch of new products to the market and making available already produced products and services to the consumers. Distribution is crucial in the eventual acceptance and sales of a new product in the market as it determines the availability of the new product to customers. According to Stern and Sturdivant (2007), distribution decisions have far reaching implications because changing them is both resource and time demanding and hence firms have to take great care in designing their distribution systems during the launch of innovations. As a result, the fit between product and the delivery system is the single most important variable, affecting the success of new services and products (Easingwood and Storey, 2001). As the distribution strategy plays a role in enabling the availability and application of the product in the marketplace, the distribution strategy employed by the innovator would impact the nature of "market support" capability that can be provided to the innovation.

As one of the key elements of a company's success, selecting the proper distribution channel strategy has been a focal point in both supply chain and marketing channel structure in both local and international trade. The distribution channel strategy decision is usually based on finding the most profitable way to reach a market and according to Lee et al., (2003) successful distribution channel strategy selection, implementation, and management cannot only help to meet the shopping needs and habits of the target customer's efficiently under the cost constraints of the seller, they must also mitigate the disadvantages caused by distribution channel conflicts such as double marginalization. When selecting distribution channel strategies for an organization, the competitive landscape that the organization operates in should be taken into consideration. Further, the demand for service support in a distribution environment by a firm has become important in the recent past (Rogers, 2003). He attributes these need to among others; products being more complex and thus being more service sensitive, greater customer awareness of their rights regarding warranty services, decline in product consistency and instances of poor design and increased instances of product misuse by customers.

According to Liu and Weinberg (2004), the decision of how to distribute products is linked to the overall strategy of the organization regarding its products and the markets it plans to serve. They point out that some manufacturing firms have the financial resources needed to perform most or all channel functions, if they choose to do so while other manufacturing units operating with limited resources, may lack the ability to perform many channel functions (including product distribution and service support administration) directly, regardless of their management's desire to control these functions directly. Further, Fill (2005) posits that in order to make a channel decision, an organization need to consider a number of factors. He observes that this factors will include the importance of the firm to distribute its products since there could be legal, regulatory or safety conditions to make, customer expectations, the returns expected from the adoption of a given distribution strategy, the availability of the necessary knowledge or skill – base within the organization to distribute its product and/or to offer after sales service support in a particular market segment and also assessment of the existence of enough opportunities in a particular market segment for a firm consider product distribution.

2.2.1 Distribution channel selection

The decision of selecting channels for product distribution largely depends on specific characteristics of the product and its manufacturer (Aspinwall, 2008). In addition, the selected target market, manufacturer's marketing mix (product, price, place, and promotion), specific industry type, and the economic context are also significant factors in this decision. The distribution channel selection decision comprises many dimensions such as the distribution structure, distribution intensity and distribution management.

The distribution structure refers to management's decision of selecting a particular type of distribution channel to serve designated end-user markets. Weigand (1997) emphasizes the importance of choosing the right combination of markets, channels, and products. He claims that under certain industry conditions, it is better to use more than one market, channel or product, which he refers to as multi-marketing. Such channel selection decision must be based on sales maximization, cost minimization, and goodwill control. On the other hand, the distribution intensity refers to the decision concerning the number of channel intermediaries to be involved with the distribution channel of a product. The level of distribution intensity depends on several factors including the number of consumers targeted, consumer volume potential, availability of channel intermediaries, significance of the purchase, level of channel control requirement, channel intermediary and consumer contact requirement, geographic and industrial concentration of the market (Powers, 2009).

An organizations distribution management deals with the decision to employ price and other marketing-mix variables to influence the performance of distribution channel components. Cohen and Lee (2003) provided a strategic framework for an integrated production-distribution system addressing service measures such as customer service levels, finished-goods inventory levels, manufacturing cost, and distribution cost under various distribution strategies. He also points out the emergence of electronic commerce as a significant channel management trend and that distribution channel strategies are being differentiated by profitability, service and order characteristics. Mathews (1997) observes that in the concern of modifying existing market channels, a product manufacturer can incorporate four different types of changes in marketing channels for product distribution and associated after-sales service support activities. These changes include changing the composition of the channel, identifying the role of each channel adopted, and identifying the relationship between the channel and the manufacturer. Manufacturing firms may adopt one or more of these channel change strategies to realign their market priorities for product distribution and after-sales service support with the overall objectives of the firm.

2.3 Distribution Strategies in the manufacturing sector

The economic distribution channel theory posit that the normative distribution channel can be determined by exploring what the consumers want in terms of service outputs from the distribution channel, how much they are willing to pay for a given service level, how the services can be provided to them, and what the costs of the alternative distribution channels are (Stern and Sturdivant, 2007). Thus it is imperative that business units establish an appropriate distribution system that is most efficient in meeting the customers' wants and therefore making the customer perspective an important factor in choosing an appropriate distribution channel. Several different distribution channels are used by the manufacturing firms. They offer their products through branch networks, adoption of the electronic system and multiple distribution system.

2.3.1 Branch Network

Ordinary branch network requires the customers to come to the firm's warehouse, where they have access to a wide variety of its products but have to wait in line before getting served. The warehouse type of branch network serves best customers who value more personal relationship and their existing communication breakdown ((Heskett *et al.,* 1997). These customers value the face-to-face contact with the seller and emphasise a trustful relationship. They do not own a PC and do not work with information technology. As are result of the adoption of technology, this segment is still large and important but it is shrinking.

As manifested by the many organization networks, this has been the emergent strategy for most firms. For many organizations, this is the distribution channel structure they are used to, and this is where their competences lie. It is suitable for delivering products and services based on face-to-face interaction, and it targets a very large segment of the manufacturing firm customers. However, many organizations might be reducing their reliance on the branch network. The problem with the strategy is that it is expensive and likely to lead to a decreasing number of customers. Growth might be maintained through mergers and acquisitions, but only a few firms will have the luck and the skills necessary for such a strategy. A likely strategy for the firms at present pursuing this strategy is therefore to combine it with an offer of electronic home delivery services. For some organizations the transformation will cause problems because they lack resources or due to bad timing in the promotion of the electronic channels. These organizations risk being unable to match the prices of comparable firms that are wholly Internet based (Birch and Young, 2007).

2.3.2 Multiple distribution strategy

The multiple channel strategy is the most popular distribution channel strategy among clients. It gives customers a gentle transition from a warehouse based to a strategy emphasizing one of the electronic distribution channels, and it provides good market coverage (Moriarty and Moran, 2000). It is also a way for the organization managers to hedge their bets by making a number of smaller investments in PC/Internet banking systems, while simultaneously continuing a traditional warehouse distribution strategy.

However, the hedge strategy is not entirely without problems. Multiple channels are likely to lead to conflicts between the branches and the departments responsible for the electronic distribution channels. It can be difficult to motivate the front personnel in the branches to promote these home ordering services knowing that it leads to cannibalization and unemployment. The strategy can also result in customer problems because they may have difficulties in accepting a wide price differential between the services offered through the branches and the services offered through for example the Internet (Moriarty and Moran, 2000).

2.3.3 Electronic distribution

Telephone distribution strategy has the telephone as its most important distribution channel; it relies on a more impersonal form of contact than the branch strategy. According to Birch and Young (2007), majority of European countries have this system in place, but they have often used it in combination with the branch distribution. The advantages connected with this strategy are that all people with access to a telephone are potential customers and that it is less costly than the branch strategy. Thus, it gives access to a large segment and a large geographical coverage without large-scale investments. It also relies on thoroughly tested and secure technology. The disadvantages, though, are that it has attracted the most price-sensitive customers (Mols, 2008), and that this segment is likely to shrink.

PC distribution strategy has many of the same qualities as the telephone channel and most organizations attach decisive importance to offering some kind of customer-friendly PC solution. The segment attracted to this strategy is relatively small though growing, and its members are likely to be the first to adopt the Internet service solutions. Therefore PC distribution strategy though transitory, may be the most important channel for the organization. The reason why so many firms attach importance to offering a PC solution may be that survey results have shown that the least price-sensitive customers are PC customers, and thus, they make up a potentially very profitable segment to serve (Mols, 2008). This trend can still be explained by the early adopters' interest in the new technology and the convenience it offers rather than by an interest in using the most cost-effective distribution channel. Therefore, it is likely that PC customers will eventually become more price-sensitive, which is in accordance with the predictions that Internet services is likely to make home customers even more price-sensitive than they are today

(Birch and Young, 2007). As with the telephone and PC distribution strategy, a pure Internet strategy requires radical changes for many banks. They have to reduce their number of branches and foster new competences. However, the strategy has the advantage that it aims at serving the fastest-growing customer segment, and thus it will be a means to gain market shares. In addition it is a low-cost strategy, because the Internet is the cheapest distribution channel. The disadvantage is that it is difficult for Internet organizations to differentiate their offerings (Birch and Young, 2007).

2.4 Competitive Advantage

Competitive advantage is the ability of a firm to earn returns on investment consistently above the average for the industry (Porter, 1985). On his part, Barney (1991) observed that competitive advantage can be achieved if the firm implements a value-creating strategy that is not simultaneously being implemented by any current or potential competitors. According to Meso and Smith (2000), sustained competitive advantage results from strategic assets; which Barney (1991) regards as those that are internally controlled and permit the firm to formulate and implement strategies that expand its efficiency and effectiveness. Competitive advantage is thus dependant not, as traditionally assumed, on such bases as natural resources, technology or economies of scale, since these are increasingly easy to imitate. Rather, competitive advantage is, according to the resource base view, dependant on the valuable, rare, and hard-to-imitate resources that reside within an organization (Stiles and Kulvisaechana, 2004). They are indeed the assets which Stewart (1997, p.56) referred to "invisible assets" which in real sense is intellectual capital.

According to Tovstiga and Tulugurova (2009) a firm's competitive advantage and performance are largely influenced by its intellectual capital. However, Ligin (2010) notes that there is far from enough empirical research investing the practical role of competitive advantage on the relationship between intellectual capital and performance. Most previous literature addressing intellectual capital has ignored the significance of competitive advantage on the relationship between intellectual capital and organizational performance (Chang and Lee 2008). However, in competitive environments, it is not enough for a firm to have only the capability of selecting strategic alternatives and organizing marketing resources to deliver a sustainable competitive advantage – these resources must be deployed (Jiang, 2002). In addition a firm must establish new competitive advantages and shape the development of the market via two types of competitive styles namely; competition through the resources of the traditional marketing environment and competition by transcending the traditional marketing environment,

Scholars who adhere to a resource-based view of the firm believe that resources contribute to competitive advantage but only when a firm possesses valuable, scarce, inimitable and irreplaceable resources. Barney (1991) observes that particular combinations of these resources deliver a particular type of competitive advantage. He suggested that not all of a firm's resources hold the potential to deliver an competitive advantage. Rather, the firm's resources must possess the attributes of rareness, value, the inability to be imitated and inability to be substituted if an SCA is to be realized. However, in the real world of business, it is unlikely that all firms will have the capacity to possess or access all the resources that satisfy Barney's (1991) conditions. In addition, firms may not have the capacity to utilize these resources in the right combination even if they were accessed in an appropriate manner. On his part, Oliver 1997), argues that both resources and institutional capital are indispensable to creating an SCA. The capability-based view of the firm also moves a step closer to understanding how enterprises develop and maintain their sources of competitive advantage. Hence for a firm to be assured of a sustainable development, it must identify its competitive advantage variables and harness the same to a maximum benefit.

2.5 Distribution strategies as a source of competitive advantage

The main purpose of a distribution strategy is to understand and meet customers' needs and this is achieved when all components of the marketing system, that is, suppliers and distributors, are co-coordinating efforts and working in harmony (Okoroafo, 2006). He points out those well-conceived and effective distribution activities will facilitate the achievement of typical organizational objectives such as higher sales, market share, profits and competitive advantage. Indeed, a marketing function is an important and integral part of organizational business strategy. According to Okoroafo and Russow (2003), sound distribution strategy is an important contributor to performance in economic reform economies. Many businesses will adopt a new attitude to marketing in transition environments, formulating strategies which demonstrate a focus on customers. Thus for firms to be competitive in such environments, it is essential to conduct effective product, pricing, promotion and distribution activities, where customers are central to all marketing efforts and to the extent that these strategies are successfully implemented, they are expected to result in improved performance.

According to Day (2004, p. 44), "Market-driven firms are distinguished by an ability to sense events and trends in their markets ahead of their competitors. They can anticipate more accurately the response to actions designed to retain or attract customers, improve channel relations, or thwart competitors. They can act on information in a timely, coherent manner because the assumptions about the market are broadly shared". This organizational capability has significant implications for the attainment and sustainability of competitive advantage. Businesses that possess the ability to learn rapidly and adjust their distribution strategy are best positioned to achieve competitive advantage (Tuominen *et al.*, 1997). To help an organization deal with market events and trends, internal organizational processes develop (Day, 2004). Among the organizational processes that typically develop within an organization, its strategic planning processes and the related processes it uses for analyzing market information are cited as being among the most important (Moller and Anttila, 2007).

A market oriented distribution strategy in an organization possesses the ability to generate, disseminate, and respond to information about market forces and market conditions better than their less market oriented rivals (Jaworski and Kohli, 2003). This gives a market oriented distribution strategy an important basis for building a sustainable competitive advantage by learning what buyers want, building the processes necessary to deliver the value they desire and adapting those value generating processes as market conditions change. To use these processes as the basis for competitive advantage, an organization needs to develop the capabilities to generate, disseminate, and respond to market intelligence and the processes to act on this information (Hunt and Morgan, 2005).

According to Hunt and Morgan (2005) not all firms will develop a market-orientation. Some firms choose to focus their attention on internal issues, such as process technology and resulting efficiencies. These firms devote less time to understanding what customers value, choosing instead to focus on increasing volume. Customer needs analysis plays a relatively small role in product development in these firms. Instead, product development is typically driven by process technology capabilities which often are the result of incremental process improvements. Unlike market-driven firms, where a focus on value (as defined by the customer) drives marketing decision making, marketing decisions in these firms often revolve around pricing issues, such as volume discounts, as the key to increasing the firm's unit sales.

Firms that do not develop a market orientation must either develop the process technology to out-innovate rivals or achieve low cost positions (Day, 2004). These firms, although they will not develop the processes needed to generate, disseminate, and respond to market intelligence to the same degree as a market oriented firm, can be successful by combining a process focus with just enough market intelligence generation, dissemination, and responsiveness to understand where customers' needs are going and react accordingly. Day (2004) alludes to the existence of these firms when he discusses the impact of Total Quality Management (TQM) on value generation. Successful implementation of TQM gives firms a quality focus, which often coincides with what customers' desire.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology that was used in the research. The chapter adopts the following structure: the research design, target population, and data collection methods and data analysis method to be used.

3.2 Research design

The research design was a case study. A case study is an in-depth investigation of an individual, institution or phenomenon. The research design was adopted in this particular study since not all the target population of the study were knowledgeable of the role of the distribution strategies as a source of competitive advantage to the organization.

In light of this therefore, a case study design is deemed the best design to fulfill the objective of the study as only a few members of staff were knowledgeable to the research area. As a result of this, a case study research design was an appropriate design.

3.3 Data Collection

The study made use of primary data which was collected through a face to face interview with the researcher. An interview guide was used to collect data on the role of the organizations distribution strategies as a competitive advantage tool. The interviewees were those involved with formulation, evaluation and implementation of the distribution strategies in the organization.

The interview guide was made up of three sections namely; respondents profile, product distribution strategies in the organization and the role of the firms distribution strategies as a source of competitive advantage. The interviewees will be the 3 managers and 2 functional heads in marketing, business development, and logistics departments as they are considered to be key informants for this research.

3.4 Data Analysis

The data obtained from the interview guide was analyzed qualitatively. Qualitative data analysis makes general statements on how categories or themes of data are related. The qualitative analysis is adopted in this study because the researcher was able to describe, interpret and at the same time criticize the subject matter of the research since it was difficult to do so numerically. The qualitative analysis was done using content analysis. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study. It involves observation and detailed description of objects, items or things that comprise the object of study.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1: Introduction

The research objective was to establish the role of distribution strategies as a source of competitive advantage in the beverage industry: a case study of nestle Kenya limited. This chapter presents the analysis and findings with regard to the objective and discussion of the same and is divided into four sections namely; respondents profile, distribution strategies adopted at Nestle and how the distribution strategies employed by Nestle (k) Ltd has become a source of competitive advantage to the organization.

4.2: Respondents Profile

This part of the interview guide was intended to assess the capacity of the respondents to answer the questions on the interview guide and also whether they are versed with the subject matter of the study. The respondents comprised the top and middle level managers of the company namely; distribution manager, Regional manager, sales controller, supply chain manager and IT manager. These respondents were purposely selected by the researcher because they were deemed to be dealing in the company with issues relating to distribution of the company products and services. In total; the researcher interviewed all the targeted five respondents. This represented 100% response rate. All the respondents interviewed had university degrees with 2 of them having Masters Degrees. Their work experienced spans a total of 43 years in various departments within the organization and other firms in the beverage industry. In addition, the views of both genders were represented in the interviewees because two of the respondents were female against three men. This meant that the views expressed by the respondents were not gender biased.

One observation made from the results of the interview was that two of the respondents, representing 40%, on been asked whether they will wish to change their current jobs answered in the affirmative. The reasons given were that they felt the amount of work they undertake in the organisation does not commensurate with the level of compensation they get. However, the other three respondents, 60% the sample, indicated their satisfaction with their current duties, highlighting various opportunities available within and without the organization such as career development, interaction and solving customer complains, and the new challenges that come in the course of their duties. All these helped in personal development of the respondents and thus creating a motivated workforce. With their solid background in the affairs of the organisation, the respondents were found to be knowledgeable on the subject matter of the research and thus help in the realization of the research objective.

4.3 Distribution Strategies employed at Nestle (k) Ltd

This section of the interview guide wished to establish from the respondent what distribution strategies Nestle (k) ltd employees in distribution of its products in the country and regionally. This position will help to assess whether the current distribution strategies will be a source of competitive advantage to the organization.

The researcher wished to establish the various distribution strategies being employed currently by the firm. The respondents pointed out that the strategies being used by the organization include warehousing, direct distribution, intense distribution as well as indirect distribution using middlemen. They further observed that the distribution strategies being employed is not uniform and depends on the circumstances of a particular market. For example one of the respondent pointed out that in the Democratic Republic of Congo, indirect distribution using middlemen has become an effective distribution system because of the large and yet sparsely inhibited region with less developed infrastructure system. It was noted that initially, the firm had attempted to use direct distribution and during the period, the total cost of sales and distribution in the region was around USD 15000 with the resultant sales volume of around USD 3.2M. The management found out that the cost was high compared with the revenue generated and made a decision to change to indirect distribution in which they recruited agents to distribute the firm's products to the customers. The respondent pointed out that with the change in the distribution strategy, the sales and distribution cost in the region reduces to around USD 8500 and at the same time the total sale value increased to over USD 4.6M. This they pointed out meant that adaptation of the distribution strategies will impact on the results the firm.

The results of the study also had that a firms distribution strategies should be aimed at ensuring the availability of products to the consumers. To this extent, the respondents noted that a firms numeric distribution can better be improved in the micro-retail level and also by ensuring that products are available in the target key channels. They though noted that channel distribution might be challenging to a firm but at the same time they posited that with good negotiation and agreements with the channels through offering attractive trade margins and promotions, the distribution strategy will yield positive results. However, one of the respondents noted that with the evolution of products and changes in consumer demands, it was noted that a firm should make products available in key accounts and also there is need to improve in the traditional distribution channels to conform to consumer demands and expectations.

The findings of the study also indicated that before an organization can adopt a particular distribution strategy, several factors will need to be considered. In the case of Nestle, it was found out that the organization considers several parameters including the allowable credit period to the customer, distributor reputation, and demographic distribution, area of geographic coverage, financial status as well as quality assurance procedures and safety. The other factors that Nestle considers was found out to be accessibility of the market channel, credit check, legal issues, nature of its existing products and the established network. What comes out from these findings is that there is no overall strategy that is applicable to all conditions and locations and what is required is adaptation of the firm's distribution strategies to the firm product peculiarities. This finding is similar to that made by Liu and Weinberg (2004) who noted that that the decision of how to distribute products by a firm should be linked to the overall strategy of the organization regarding its products and the markets it plans to serve.

A firms distribution strategies is not absent of challenges. The respondents pointed out that a number of challenges are faced by Nestle and several strategies have been put in place. To mitigate the challenges faced in distribution strategies, the firm has different margins across the business partner's hierarchy such as key accounts and also traditional trade system. The other method the organization uses is by reducing channel conflict by having specification of territorial rights, having one price list with stipulated margins by the company to all distributors. With such a policy applicable to all distributors, the sales level will not be on the basis of price wars but the relationship marketing strategy adopted by each distributor.

Further, it was also found out that different segments are reached by different distribution channels and in order to sale to these segments, a firm need to identify a particular distribution channel that will give improved sales to the firm. A case in point is where for example the company directly delivers its products for example Nescafe to hotels depending on the grades that they desire instead of using distributors. In addition, the respondents pointed out that in supermarkets and airports, the organization has adopted dispensing the products through use of dispensing machines. It is further suggested that with a firm maximizing on the retail know how of the business partners, a firm will be able to achieve more sale and meet the expectations of the customers and maintain their competitive advantage. With some product portfolio, it was also noted that a firm will need to improve on distribution of smaller stock by keeping units at the micro scale level.

4.4 Distribution Strategies as a source of Competitive advantage at Nestle (k) Ltd

This section of the interview guide aimed at establishing from the interviewees how the organizations distribution strategies have become a source of competitive advantage. Competitive advantage is more likely to be based on support considerations, such as service quality, distribution channels or image and reputation factors, pertaining to the organization as a whole rather than any individual service offering. Basing competitive advantage on the organization as a whole rather than on specific offerings allows the organization to place considerable emphasis on trust and confidence to mitigate the doubts and uncertainties experienced by consumers.

On the question on how the organization has gained competitive advantage from the adoption of distribution strategies, all the respondents answered to the affirmative. They pointed out that with adoption of effective distribution strategies by the firm; they have been able to increase numeric distribution of its products and making the products available to more consumers. One of the interviewees noted that when they changed their distribution strategy in DRC for example in 2009, the number of units of spices sold in that country almost doubled to around 45 tonnes in the year compared to 24 tonnes in the previous year of 2008. In addition, Nestle adaptation of its distribution mode, for example, direct distribution to key accounts, has lead to a reduced lead times in delivery of the company and also regionally defined the route to market.

On the question of whether Nestle has adequate mechanism in place to sense events and trends of distributing its products, the answers from the respondents was varied. One respondent noted that the organization is closed and as such they do not seem to react to competition. He noted that the global image of the company is not matched to the local strategies and performance and consumer perception of the company. However, it was also noted that the good reputation the firm has is skewed towards middle income earners and to counter this weakness by developing an effective good relations with the modern trade has enabled the company create a niche market and be category lender. This identification of a firms weakness and coming up with effective strategies to counter the hindrance and this finding is similar to that made by Goodman (2009) while studying the distribution strategies employed by manufacturing firms in UK.

An organization engaged in international trade should not only adopt a suitable distribution strategy for its products, rather it should realize the importance of keeping an eye on the changing competitive distribution strategies of other players in the market. The respondents observed that their firm has a consumer services team that gather market intelligence on what changes have occurred in the market that necessitate a need to realign the present distribution strategy in order to gaining the necessary competitive advantage. However, it was also noted that presently the organizations decision making process is low and in some cases opportunities have been lost due to the slow process. Further, the interviewees noted that in the case of Nestle, the organization has developed effective communication with the business partners to enhance trust and satisfaction through for example proposing consumer activations and channel demarcation. Another step that has been taken by the organization to enhance their local and international information catering on the market dynamics is through investment in systems for example SAP which has improved the business ware house reports which provides analysis of the distribution costs, improved accuracy in order of picking and therefore leading to accurate distribution costs and timely dispatch of shipment.

The study also sought to establish from the respondents what steps the organization takes while designing their appropriate strategy and whether the same steps are considered adequate in the present competitive business environment. On this part, it was pointed out that there is need to evaluate customer's requirements and market penetration, there is need to improve the organizations monitoring of the right channel performance for example micro retail and also the need of the organization to apply the push and pull strategy where wholesalers pull from the regional distribution centres. This noted will improve product availability and better customer service.

Apart from the need to streamlining the organizations distribution process, the study also found out that the firms pricing, product and promotion activities should complement the distribution system that has been adopted. The interviewees noted that the organization products require increase in portfolio to enhance their product varieties. The limited number of products has been due to the present product range that can be considered to be positioned for premium – selling thus leaving majority of the population without a product that can be associated with them. Need to improve on product mix, create more brand awareness, also need to engage in competitive pricing irrespective of the strong brand names so as to grow the categories and give value to customer. Also there is need for the organization to improve on the right product mix through importing from the other markets. However, it was noted that introduction of smaller packs is present in the micro retail.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

The results centered on determining the role of organizational distribution strategies as a source of competitive advantage. The research therefore wished to determine the distribution strategies as a source of competitive advantage at Nestle (k) Ltd.

The findings of the study were that Nestle had put in place what can be termed as effective distribution strategies which have given it a competitive advantage in the beverage industry both in Kenya and the greater East and Central Africa. The firm employs different distribution strategies that make its products reach a wider market with minimal cost. Some of the distribution strategies employed includes warehousing, direct distribution, intense distribution as well as indirect distribution using middlemen. However, these distribution strategies are not uniform but rather depend on various factors including the geographical coverage, development of the market, level of competition existing and cost of the process. The findings of the study also highlighted the need of an organization to consider allowable credit period to the customer, distributor reputation, and demographic distribution, financial status as well as quality assurance procedures and safety. The other factors that Nestle considers was found out to be accessibility of the market channel, credit check, legal issues, nature of its existing products and the established network.

The adoption of particular distribution strategies by a firm should aim at ensuring the availability of products to the consumers. The numeric distribution can better be improved in the micro-retail level and also by ensuring that products are available in the target key channels. Though identification and implementation of an appropriate distribution method by a firm might be challenging, employment of good negotiation and agreements with the channels partners through offering attractive trade margins and promotions will possibly yield positive results.

The distribution strategies adopted in the organization has led to a number of competitive advantage which includes the increase in area of coverage especially in the international market, edge competitors in making the products available to customers, increase in customer satisfaction through making the products available as well as addressing their concerns more promptly. Upon developing the appropriate distribution strategy it is also for an organization to evaluate customer's requirements and employ effective market penetration strategies as well improve the organizations monitoring of the right channel performance for example micro retail and also the need of the organization to apply the push and pull strategy where wholesalers pull from the regional distribution centres. However, for the success in the competitive advantage present, the organization should also combine the strategy with other strategies such as utilization of core competencies, organizational brand advantage, management competencies and utilization of the existing channel goodwill.

5.2 Conclusion

An organizations competitive advantage is no longer on the products or services it offers but rather in the present day business environment, competitive advantage is found in those innate organizational capabilities that makes its products and services easily available in the market. One of these organizational capabilities is its distribution strategies that which will make the company make its products and services reach the market more economically. The achievement of competitive advantage by any organization would enable it to outperform their rivals in sales which will lead to gaining high profits. However, it should also be noted that the adoption of a particular distribution strategies should be determined by the cost as well as influence from the customer acceptance perspective.

The distribution strategies adopted by firm will in the long run determine the survival of the institutions as customers will always look for institutions that satisfy their needs. Conversely, with increased consumer understanding, either because consumers are more knowledgeable or because the products are relatively simple, or both, then elements such as price and specific service features may become more important in adding value and achieving competitive advantage. Further, it should be noted that even within a given set of markets, differing degrees of knowledge and understanding across different market segments may enable some niche operators to define their markets and sources' competitive advantage more easily than is the case with the mass market players. In this respect, a market orientation may assist also the accurate mapping of the competitive arena.

However, the existing competitive advantage might not last for a foreseeable future. If the customers accept the electronic channels, the future distribution channel structure is predicted to be different from the present distribution channel structure, and consequently an adaptation process need to be employed. Further, as the competition between the markets players intensify, some of them will experience financial problems if they do not merge with or are bought by more efficient organizations. The distribution strategies adopted by the organization will in the long run determine their survival as customers will always look for institutions that satisfy their needs. Conversely, with increased consumer understanding, either because consumers are more knowledgeable or because the products are relatively simple, or both, then elements such as price and specific service features may become more important in adding value and achieving competitive advantage. It should be noted that even within a given set of markets, differing degrees of knowledge and understanding across different market segments may enable some niche operators to define their markets and sources' competitive advantage more easily than is the case with the mass market players. In this respect, a market orientation may assist also the accurate mapping of the competitive arena.

5.3 Recommendations

This study makes several recommendations for policy implementation and also suggest for further research.

Foremost, the study established that that a firm may adopt different distribution strategies depending on the particular circumstances in a given location. On the basis of the above finding, it is recommended that the management of various firms should adapt their distribution method in such a way that it meets the peculiarities of a particular location, clientele, government policy and in such a way that will result to greater sale and competitive advantage. This also implies that there is no uniform distribution strategy even in a particular industry or sector but instead, it is recommended that firms adopt a distribution strategy that matches their products and operational market.

Secondly, the study found out that the rolling out of a particular distribution strategy is capital intensive and requires that an organization undertakes and elaborate feasibility study to assess their sustainability as well as their benefits cost analysis. This step will mean that the organization will only employ a strategy that is sustainable and will lead to the necessary competitive advantage.

Lastly, the study found out that the beverage firms in some cases lack sufficient information on the market segments' preferences for channel mixes which inhibits design of customer-driven distribution systems. It is recommended that competitor actions be described in order to estimate the intensity of rivalry for different customer segments.

The study confined itself to Nestle (k) Ltd and the findings may not be applicable in other sectors or firms in the same industry hence further studies should be carried out. It is therefore recommended that the study is replicated in other sectors to establish the use of distribution strategies as a source of competitive advantage.

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APPENDIX I: INTERVIEW GUIDE

The interview guide will seek to achieve the following objectives;

i. Establish the distribution channel strategies adopted by Nestle Kenya limited.

ii. To determine the extent which this strategies contribute to competitive advantage.

Section A: Background Information on the respondents

- What position do you hold in the company?
- For how long have you been holding the current position?
- For how long have you worked in this organization?
- What is your level of education?

Section B: Distribution strategies

a. Which distribution strategies does your organization use?

b. Has the distribution strategies being used by the organization ensured availability of products to its intended customers?

c. What factors did the organization consider before choosing the distribution strategies they are currently using?

d. Has the management of the organization ensured that they mitigate the disadvantages caused by distribution channel conflicts such as double marginalization?

e. Did the organization consider the competitive landscape and the demand for service support when selecting distribution channel strategies for an organization?

f. Did the overall strategy of the organization on how to distribute its products linked to products and the markets it plans to serve?

Section C: Distribution strategies as a source of competitive advantage in Nestle Kenya

a. Has the usage of distribution strategies by the organization lead to it gaining competitive advantage?

b. Does the components of marketing system in the organization co-coordinate efforts and work in harmony in order to achieve higher sales, market share, profits and competitive advantage?

c. Is the organization market driven whereby they can sense events and trends in their markets ahead of their competitors, anticipate more accurately the response to actions designed to retain or attract customers, improve channel relations, or thwart competitors, act on information in a timely, coherent manner because the assumptions about the market are broadly shared as it enable the organization to attain and sustain competitive advantage?

d. Does the organization learn rapidly and adjust their distribution strategy in order to achieve competitive advantage

e. Does the organization distribution strategy market oriented whereby they can generate, disseminate, and respond to information about market forces and market conditions better than their less market oriented rivals in order to achieve competitive advantage?

f. Has the organization developed the capabilities to generate, disseminate, and respond to market intelligence and the processes to act on this information in order to achieve competitive advantage?

g. Has Nestle Kenya implemented systems that that not only deliver performance improvements, but also the ability to control them against top level targets in order to gain a competitive advantage over other players in the market dealing with the same products and services?

h. Does the organization take great care in designing their distribution systems as changing distribution strategies is both resource and time demanding?

i. Has the organization conducted effective product, pricing, promotion and distribution activities in competitive environment where customers are central to all marketing efforts in order to improve performance?