

**FOREIGN MARKET ENTRY STRATEGIES USED BY  
MULTINATIONAL CORPORATIONS IN KENYA: A  
CASE OF COCA COLA KENYA LTD**

**BY:**

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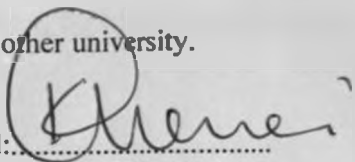
**A RESEARCH PROJECT SUBMITTED IN PARTIAL  
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## DECLARATION

This research project is my original work and has not been presented for examination in any other university.

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

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To my dear friend Jeanette for her moral support.

## **DEDICATION**

This work is dedicated to my dear parents and family members for their support and encouragement, and to the Almighty God with whom I would not have come this far.

## ABSTRACT

This study was on the strategies that MNCs use to enter the Kenyan market with a case study of Coca Cola Company in Kenya. The objective of the study was to establish the foreign market entry strategies adopted by Coca Cola Kenya Ltd.

The study employed a case study as its research design. Primary data was used in the research. The data was collected using an interview guide. The respondents interviewed were senior managers of Coca Cola Kenya Ltd in the operations department. Five senior managers were interviewed; the finance manager, the operations manager, the commercial manager, the exports manager and the Production Manager. Data was analysed using content analysis as the study aimed to collect data that was qualitative in nature.

Following the study findings it was possible to conclude that Coca Cola Company has ventured into various foreign market entry strategies in order to increase its customer base and its profits. These market entry strategies include foreign direct investment, joint ventures, franchising and exporting.

It was also possible to conclude that there are various factors influencing the choice of market entry strategy, the factors are legal framework, risk of macroeconomic instability, loss of assets due to non-enforceability of contracts and physical destruction caused by armed conflicts.

It was also possible to conclude that all market entry strategies faced various challenges but the management was successful in overcoming the challenges.

The study recommends that multinational firms should continue investing in various foreign market entry strategies so as to meet the company objectives and mission.

It is also recommended that the company should study the marketing environment before adopting any strategy so as venture into the strategies which best suit their company.

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# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the study

International organisations operate within an environment with various players and competitors. The international market has become very competitive due to several factors some which include globalisation, rapid development of information and communication technology and others. Liberalisation of the international market has increased the volume of business especially by international firms. Multi-national Corporations (MNC's) operate within the international business environment where they compete not only for their national market share, but also the international one

In its clearest definition, international business is described as any business activity that crosses national boundaries. The entities involved in business can be private, governmental, or a mixture of the two. These national boundaries have been crossed with several businesses in the tourism and hospitality sector, communication and technology sector and many others. International business can be broken down into four types namely foreign trade, trade in services, portfolio investments, and direct investments (Ajami, et al, 2006.) Internationally, most companies would prefer to remain domestic if their domestic market were large enough. Managers would not need to learn other languages and laws, deal with volatile currencies, face political and legal uncertainties, or redesign their products to suit different customer needs and expectations. Business would be easier and safer. Yet several factors draw companies like Coca Cola into the international arena: higher profit opportunities in international market, Need for a large customer base to achieve economies of scale, reduce dependency on any one market, counter attacking global competitors in their home

markets, Global customers who need international service (Kotler, Armstrong, Saunders, and Wong, 2009).

### **1.1.1 Multinational Corporations**

There is no formal definition of a multinational corporation, although various definitions have been proposed using different criteria. Some believe that a multinational firm is one that is structured so that business is conducted or ownership is held across a number of countries, or one that is organized into global product divisions. Others look to specific ratios of foreign business activities or assets to total firm activities or assets. Under these criteria, a multinational firm is one in which a certain percentage of the earnings, assets, sales, or personnel of a firm come from or are deployed in foreign locations. A third definition is based on the perspective of the corporation, that is, its behaviour and its thinking. This definition holds that if the management of a corporation has the perception and the attitude that the parameters of its sphere of operations and markets are multinational, then the firm is indeed a multinational corporation. (Ajami et al, 2006)

According to R. P. Maheshwari (1997) a multinational corporation means an enterprise which allocates company resources without regard to national frontiers, but is nationally based in terms of ownership and top management. Basically they are international corporations with production locations in more than one country. The origin of multinational firms lies in their owner's desire to maximise sales and profits. These enterprises own or control production or service facilities outside the country in which they are based. There is no agreed definition of what constitutes a multinational corporation. Some authorities define it as a company whose foreign sales have reached a ratio of 25 percent of total sales. Others look to the distribution of

ownership, the global products, and the mixed nationalities of management as the determining characteristics. According to Professor Raymond Vernon of Harvard University, the definition of a multinational corporation is applied to any institution which tries “to carry out its activities on an international scale, as though they were no national boundaries, on the basis of a common strategy directed from a corporate centre.” Jacques Maisonrouge, president of IBM World Trade Corporation, defines the multinational corporation as one which operates in many countries, carries out research, development and manufacturing in those countries, has a multinational management and has multinational stock ownership. (N. S. Fatemi et al 1976)

### **1.1.2. Coca Cola Kenya Ltd**

Coca Cola Company is a Multinational Corporation originating from United States of America and manufactures, retails and markets non-alcoholic beverages and syrups. The company’s flagship product was invented in 1886 by John Pemberton in Columbus, Georgia. The formula and brand of Coca Cola was bought by Asa Candler in 1889 who later incorporated The Coca Cola Company in 1892.

The Coca Cola Company operates a franchised distribution system dating from 1889 where the company produces only the syrup concentrate which is then sold to various franchisees throughout the world that hold a territory that is exclusive. Coca Cola Kenya therefore is a franchise of the Coca cola Company whose headquarter is Atlanta, Georgia. According to the 2007 Annual Report, Coca-Cola had sales distributed in a manner where 42% of the sales were in the United States, 37% in Mexico, India, Brazil, Japan and the People's Republic of China and 20% spread throughout the rest of the world. The total revenue in 2011 was US\$ 46.542 billion according to the United States Securities and Exchange Commission.

Coca-Cola started operations in Kenya in 1948, on a Nairobi plot measuring just a quarter of an acre. The new beverage proved so popular that another production line was commissioned almost immediately in the coastal town of Mombasa. CCS acquired NBL in 1995. Coca-Cola Sabco's Kenyan plant in Embakasi, Nairobi, employs approximately 1 000 people. It is one of the biggest bottling plants in the group. This state-of-the-art facility was officially opened by Kenyan president Mwai Kibaki in 2005.

## **1.2 Research Problem**

Most multinational corporations would prefer to remain domestic but several factors push them into entering foreign markets. Some of these factors are; higher profit opportunities in international market, Need for a large customer base to achieve economies of scale, reduce dependency on any one market, counter attacking global competitors in their home markets and Global customers who need international service.

Organisations require massive resources of time, energy and personnel on the national level. Adding an international component greatly intensifies the amounts of resources needed; this commitment is staggering and is generally avoided by many domestic businesses. Organisations must consider many factors before going international; among other things it must evaluate its personnel, assets, international experience and the suitability of its products. These factors should be reviewed in terms of the overall short-term and long-term strategic goals and objectives of the firm. Organisations have to review all these factors in order to use the appropriate entry strategy to enter a foreign market.

A number of studies have been done on foreign market entry strategies used by MNCs in Kenya. Mugambi (2011) studied foreign market entry strategies adopted by firms in the export processing zones, Gichui (2011) studied foreign market entry strategies used by Eco Bank Kenya Limited to enter the Kenyan market, Cherop (2011) researched on the foreign market entry strategies used by Fina bank Kenya when entering the East African market, Njoroge (2011) looked at the factors influencing the choice of entry strategies used by the Kenya Commercial Bank to enter into the East African region, while Wachari (2010) studied the determinants of foreign market entry strategies adopted by Kenyan firms in selecting and entering international markets. The findings of the studies were specific to the organisations under study and the entry strategies used were determined by the organisations strategic goals and objectives. The paper will answer the question. What are the foreign market entry strategies adopted by Coca Cola Kenya Ltd?

### **1.3 Research Objectives**

The objective of the study was to establish the foreign market entry strategies adopted by Coca Cola Kenya Ltd.

### **1.4 Value of the Study**

This study will contribute to the existing literature on the strategies that MNCs use to enter the Kenyan market. The study will further shed knowledge on the reasons MNCs leave their national markets and enter foreign markets. The findings of this research will be significant because it will be of help to scholars undertaking studies on entry strategies used by multi-nationals when entering the Kenyan Market.



Beverage companies such as Coca Cola will find the research useful in determining the best strategies to use when entering other foreign markets similar to the Kenya.

Both the theoretical and empirical findings can be of great help to the academicians and professionals working with international organisations. Study results will aid the government in the areas of planning and policy formulation to create a favourable business environment for foreign investors.

# CHAPTER TWO

## LITERATURE REVIEW

### 2.1 Introduction

According to Griffin & Babin (2009) literature review is the directed search of published works, including periodicals and books that discusses theory and presents empirical results that are relevant to the topic at hand. This chapter gives available literature on foreign market entry strategies.

### 2.2 Multinational Corporations

In its clearest definition, international business is described as any business activity that crosses national boundaries. The entities involved in business can be private, governmental, or a mixture of the two. These national boundaries have been crossed with several businesses in the tourism and hospitality sector, communication and technology sector and many others. International business can be broken down into four types namely foreign trade, trade in services, portfolio investments, and direct investments (Ajami, Cool, Goddard & Khambata, 2006). A Multinational Corporation (MNC) is “an enterprise that engages in foreign direct investment (FDI) and owns or controls value adding activities in more than one country” (Dunning 1993, 3). MNC is a firm that is structured in a manner that business is conducted or ownership is held across a number of nations or countries. It is a firm which a certain percentage of the assets, sales, earnings or personnel come from or are deployed in foreign countries (Ajami, et al, 2006).

MNCs are firms that possess and control productive assets in more than one country and thus have two characteristics. First, MNC coordinate economic production among a number of different enterprises and internalize this coordination problem within a single business structure. Second, a significant portion of the economic transactions connected with this coordinated activity take place across national borders .While many businesses coordinate and control the production of multiple enterprises, and while many other firms engage in economic transactions across borders, MNCs are the only firms that internalize and coordinate economic activity across national borders (Ibid, 2006).

Therefore, a firm is considered a multinational corporation if it owns, in whole or in part, a subsidiary in a second nation or country. There are different types of MNCs. First, there are MNC which are vertically integrated where the subsidiary provides inputs to integrated MNCs. Secondly, there are MNCs are horizontally integrated, meaning that the subsidiary produces a similar product to that of the parent. In the soft drink industry, Coca Cola Company is an example of horizontally integrated MNCs. The subsidiary which is Coca Cola Kenya is a bottling company which produces the same product as the parent which is Coca Cola Company in Atlanta Georgia. Moreover, advantages of MNC include superior technical know-how, large size and economies of scale, low input costs due to large size, brand image, financial flexibility, access to low cost financing, managerial experience and diversification of risks. Its disadvantages are numerous business risks, host country regulations, operational difficulties, political risks, cultural differences and different legal systems (Ajami, et al, 2006).

## **2.3 Foreign Market Entry Strategies**

Once a firm has decided to enter the international arena it must make a choice regarding the appropriate mode for organizing its foreign business activities. There are a number of entry strategies available. These alternatives are not mutually exclusive; indeed, large companies may employ them simultaneously in different contexts. As previously stated, MNC is a firm that is structured so that business is conducted or ownership is held across a number of countries, or one that is organized into global product divisions (Ajami, et al, 2006). Choice of entry modes can be fruitfully divided into the non-equity modes that involve exporting, licensing, franchising and contract manufacturing and service provision; and the equity modes that involve joint ventures and fully owned subsidiaries (Foreign direct investment).

### **2.3.1 Foreign Direct Investment (FDI)**

Foreign direct investment refers to an investment in or the acquisition of foreign assets with the intent to control and manage them. Companies can make an FDI in several ways, including purchasing the assets of a foreign company; investing in the company or in new property, plants, or equipment; or participating in a joint venture with a foreign company, which typically involves an investment of capital or know-how. FDI is primarily a long-term strategy. Companies usually expect to benefit through access to local markets and resources, often in exchange for expertise, technical know-how, and capital (Carpenter & Dunung 2011).

Countries in transition, developing countries and emerging economies have come increasingly to view FDI as a source of economic development and modernisation, employment and income growth (OECD, 2002). Studies have shown that the risk factors influencing FDI include macroeconomic instability, loss of assets due to non-

enforceability of contracts and physical destruction caused by armed conflicts (Hernández-Catá, 2000). Foreign direct investment (FDI) is an integral part of an open and effective international economic system and a major catalyst to development (OECD, 2002). FDI can stimulate the diversification of product through investments into new international businesses, so reducing market reliance on a limited number of sectors (UNCTAD 1999).

Moreover, several other factors holding back FDI have been proposed in recent studies, notably the perceived sustainability of national economic policies, closed trade regimes and poor quality of public services (Dollar & Easterly, 1998). This problem is compounded where a deficit of democracy and a lack of effective regional trade integration efforts (Odenthal, 2001).

### **2.3.2 Joint Ventures**

A joint venture is a contractual, strategic partnership between two or more separate business entities to pursue a business opportunity together. The partners in an equity joint venture each contribute capital and resources in exchange for an equity stake and share in any resulting profits (Carpenter & Dunung 2011). The establishment of International Joint Ventures (IJV) have been an increasing trend since the 1970s. By the 1990s, IJVs were the mode of choice about 35 per cent of the time by US MNCs and in 40 to 45 per cent of international entries by multinationals of Japan (Gooderham, 2003). It is an agreement by two or more companies to produce a service or product together. This entry strategy involves a much higher level of investment and therefore of risk than the previous entry strategies (Lipsey, 2002).

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Challenges posed by joint ventures include, finding the right partner not just in terms of business focus but also in terms of compatible cultural perspectives and management practices. Another major challenge is that the local partner may gain the know-how to produce its own competitive product or service to rival the multinational firm. This is what's currently happening in China. To manufacture cars in China, non-Chinese companies must set up joint ventures with Chinese automakers and share technology with them. Once the contract ends, however, the local company may take the knowledge it gained from the joint venture to compete with its former partner (Carpenter & Dunung 2011).

### **2.3.3 Exporting**

Exporting is defined as the sale of products and services in foreign countries that are sourced or made in the home country. Exporting is an effective entry strategy for companies that are just beginning to enter a new foreign market. It's a low-cost, low-risk option compared to the other strategies. (Carpenter & Dunung 2011). Exporting is a relatively low-risk entry strategy because it involves little investment and exit is unproblematic (Gooderham, 2003). This strategy of franchising is an obvious alternative for firms lacking in capital resources. Exporting not only benefits the exporting country, but also the country receiving the product. Most MNCs commonly engaged in both exporting and importing services (Barefoot. & Koncz-Bruner, 2012)

Benefits of exporting include, access to new markets which has brought added revenues and increase in profitability and access to foreign exchange. There are risks in relying on the export option. If a company merely exports to a country, the distributor or buyer might switch to or at least threaten to switch to a cheaper supplier in order to get a better price. Or someone might start making the product locally and

take the market from the company. Also, local buyers sometimes believe that a company which only exports to them isn't very committed to providing long-term service and support once a sale is complete. Thus, they may prefer to buy from someone who's producing directly within the country (Carpenter & Dunung 2011)

### **2.3.4 Licensing**

Licensing is defined as the granting of permission by the licensor to the licensee to use intellectual property rights, such as trademarks, patents, brand names, or technology, under defined conditions. The possibility of licensing makes for a flatter world, because it creates a legal vehicle for taking a product or service delivered in one country and providing a nearly identical version of that product or service in another country. Under a licensing agreement, the multinational firm grants rights on its intangible property to a foreign company for a specified period of time. The licensor is normally paid a royalty on each unit produced and sold. (Carpenter & Dunung, 2011)

Licensing is another low investment and low-risk alternative that is a particularly useful option in nations and countries where regulations limit market entry or where tariffs and quotas make export a non-viable strategy. Licensing is a preferred strategy when the target country is culturally distant from the home country or there is little prior experience of the host country. There has to be a licensing agreement which gives a firm in a host country the right to produce and sell a product for a specified period in return for a fee (Gooderham, 2003). For a multinational firm, the advantage of licensing is that the company's products will be manufactured and made available for sale in the foreign country (or countries) where the product or service is licensed. The multinational firm doesn't have to expend its own resources to manufacture,



market, or distribute the goods. This low cost, of course, is coupled with lower potential returns, because the revenues are shared between the parties. (Carpenter & Dunung, 2011)

### **2.3.5 Franchising**

In franchising, semi-independent business owners (franchisees) pay fees and royalties to a parent company (franchisor) in return for the right to become identified with its trademark, to sell its products or services, and often to use its business format and system (Scarborough, 2012). Franchising includes three basic types of systems which each of these forms of franchising allow franchisees to benefit from the parent company's identity. First, there is trade-name franchising involves being associated with a brand name. Secondly, product distribution franchising involves licensing the franchisee to sell specific products under the manufacturer's brand name and trademark through a selective, limited distribution network for example the Coca Cola Company and its distribution of soft drinks and finally pure franchising (or comprehensive or business format franchising) involves providing the franchisee with a complete business format (ibid, 2012).

Franchising has similarities with licensing but more comprehensive in comparison. For royalty payments and a fee, the franchisee receives a complete package comprising the franchiser's trademark, services and products, and a complete set of operating principles thereby creating the illusion and a picture of a worldwide company (ibid, 2003). Franchising has several advantages that include gaining access to a business system with a proven track record and the aspect of franchisors want to give their franchisees a greater chance for success than independent businesses and offer management training programs to franchisees prior to opening a new outlet. The

franchisees also purchase the right to use a known and advertised brand name for a product or service, giving them the advantage of identifying their businesses with a widely recognized name (Hatten, 2012).

In addition, there is the standardization of quality of goods and services, financial assistance, proven products and business formats, centralized buying power and increased chance for Success when one joins a franchise (Hatten, 2012). Although franchising has advantages, it is never short of disadvantages. There are the issues of franchise fees and ongoing royalties, strict adherence to standardized operations, restrictions on purchasing, limited product line, market saturation and limited freedom well elaborated in the Coca Cola case where the mother company produces and distributes the concentrate and syrup giving no room for franchisees to improvise or be creative on the final product (Hatten, 2012). Franchising has experienced three major growth waves since its beginning. The first wave occurred in the early 1970s when fast-food restaurants used the concept to grow rapidly. The fast food industry was one of the first to discover the power of franchising, but other businesses soon took notice and adapted the franchising concept to their industries. The second wave took place in the mid-1980s as the U.S. economy shifted heavily toward the service sector. Franchises followed suit, springing up in every service business imaginable from maid services and copy centres to mailing services and real estate. The third wave began in the early 1990s and continues today. It is characterized by new, low-cost franchises that focus on specific market niches (Scarborough, 2012).

# CHAPTER THREE

## RESEARCH METHODOLOGY

### 3.1 Introduction

This chapter described the proposed research design, data collection and the techniques for data analysis that were used.

### 3.2 Research design

The study employed a case study as its research design. According to Cooper, and Schindler (2006) a case study is a powerful research methodology that combines individual and (sometimes) group interviews with record analysis and observation. It is used to understand events and their ramifications and processes. Mugenda, and Mugenda (1999) describe a case study as an in-depth investigation of an individual, group, institution or phenomenon. A case study approach is suitable to determine the factors that make a particular entry strategy favourable for the organisation under study.

### 3.3 Data collection

Primary data was used in the research. The data was collected using an interview guide. According to Cooper, and Schindler (2006) an interview guide is a list of topics to be discussed in an unstructured interview. Mugenda and Mugenda (1999) describe an interview guide as a set of questions that the interviewer asks when interviewing the respondents.

The respondents interviewed were senior managers of Coca Cola Kenya Ltd in the operations department. Five senior managers were interviewed; The finance manager,

the operations manager, the commercial manager, the exports manager and the Production Manager

### **3.4 Data Analysis**

Data was analysed using content analysis as the study aimed to collect data that was qualitative in nature. Mugenda & Mugenda (1999) describes content analysis as the systematic qualitative description of the objects or materials of the study. In other words content analysis involves observation and detailed description of objects, items, or things that comprise the sample. The main purpose of content analysis was to study existing documents in order to determine factors that explain a specific phenomenon.

## CHAPTER FOUR

### DATA ANALYSIS, RESULTS AND DISCUSSION

The chapter presented the results of the study. The analysis was done using content analysis. The responses were first sorted into subthemes and then analyzed quantitatively. The quantitative responses were supported by some response in quotations.

#### **4.1. Foreign Direct Investment (FDI) as a market entry strategy**

Respondents were asked to indicate the aspects of FDI that Coca Cola Company was involved in. Respondents indicated that Coca Cola had invested in the company or in new property, plants, or equipment. The company has also resulted to purchase of foreign investments.

The responses that best supported this finding were; “The Coca Cola Company invested in a fully owned subsidiary in Kenya by registering a new company called Nairobi Bottlers in 1948. So we can say that the original market entry strategy by Coca Cola was Foreign Direct Investment (FDI)”.

Another response that supported this finding was “The Coca Cola Company has invested in property, plant and equipment. As at 5th September 2011, the company was planning to invest about Sh5 billion in Kenya over the next three years to expand its production capacity and diversify into other product ranges. Part of this investment would go into improving the beverage services plant in Nairobi and the Kisumu bottling plant”.

Still another response that illustrated this finding was “In November 1995, Coca-Cola South African Bottling Company (Coca-Cola Sabco) in partnership with Centum

(ICDC) acquired Nairobi Bottlers from The Coca-Cola Company. Coca-Cola SABCO has 72% shareholding and Centum (ICDC) has 28% shareholding in Nairobi Bottlers Limited.”

#### **4.1.2 Motives for the choice of FDI as an entry strategy**

The respondents were requested to express their opinions on the motives behind the choice of FDI as a market entry strategy. The respondents indicated that coca cola motives for deciding to choose FDI as an entry strategy was so as to benefit through access to local markets and resources, and also to safeguarding proprietary knowledge such as the patented formula.

The responses that best fitted this finding was; “Coca Cola Sabco was interested in the growing market for soft drinks. Specifically, the growing middle class in Kenya provided a market that needed to be exploited”.

Another response that supported this finding was “Coca Cola has a secret formula that gives it comparative advantage over other firms. In order to protect the formula from being stolen by competitors, FDI seems to be the best option as a far as a production is concerned.”

#### **4.1.3 Factors influencing the choice of FDI as a market entry strategy**

The respondents were requested to express their opinion on the factors influencing the choice of FDI as an entry mode. The respondents indicated that the legal framework was an important factor to consider when deciding to use FDIs as a market entry strategy. Other factors considered were the risk of macroeconomic instability, loss of

assets due to non-enforceability of contracts and physical destruction caused by armed conflicts.

The response that best supported this finding was; “the legal framework must be investigated thoroughly since it regulates the mode of entries allowed”

Another response that supported this finding was “I believe that the legal framework is important as it is connected to the heavy bureaucracy and the local governmental attitudes since the legal framework is built upon these two factors”

Another response that supported this finding was “Coca Cola just like any other MNC had to consider the risk of macroeconomic instability of Kenya and since Kenya seems to be more stable macroeconomic policies, then it was a good opportunity for FDI investment.”

## **4. 2 Joint Ventures / Strategic Alliances**

The respondents were asked to indicate whether the company has engaged in joint ventures and strategic alliances and how such it had benefitted from strategic alliances with other companies. Findings indicate that Coca Cola has engaged into strategic alliances with other companies to achieve various company objectives. For instance, it has a joint venture with 6 other bottling companies to produce juices such as minute maid.

The response that best illustrated this finding was “There are 6 Bottling Companies in Kenya – Nairobi Bottlers, Mt. Kenya Bottlers, Kisii Bottlers, Equator Bottlers, Coastal Bottlers, & Rift Valley Bottlers. Coca-Cola Juice Company (CCJC) is a joint juice manufacturing venture between the 6 bottling companies and The Coca-Cola Company (TCCC) in which NBL has a 30% shareholding”.

Another response that supported this finding was that “Coca-Cola Sabco has outsourced Johnson Diversey to do its water treatment as apparently they are the best in the world at doing so. The water is of course used to make sodas, juices and mineral water such as Dasani”

Still another response that illustrates this finding was “Nairobi Bottlers Ltd (NBL) and Flamingo Bottlers Ltd in Nakuru, which together contribute almost 50% of the country’s total volume joined forces with East Kenya Bottlers Limited (EKBL) in 2002 and, in 2003, entered an exciting joint venture – Beverage Services Kenya Ltd (BSK) – to boost their business further”

In addition, one of the managers had this to say about joint ventures “Coca Cola has made efforts to form joint ventures with companies with the hope of accomplishing a common goal. For instance, Aureos East Africa Fund investee company Safepak, Kenya’s leading PET packaging manufacturer, along with Coca Cola East and Central Africa and Highlands Mineral Water Company have launched the PET (Polyethylene terephthalate) Recycling Company of Kenya (PETCO), which plans to recycle over 70% of plastic bottles used in the region by 2015. This is a new initiative, which is the first of its kind for plastic packaging industry players in East Africa. Representatives from the three companies, along with others from the local Coca Cola bottlers, were the driving force behind the scheme”.

#### **4.2.1 Benefits of Joint venture as an entry strategy**

The respondents were requested to express their opinion on the ways that the company benefitted from strategic alliances with other companies. Coca Cola benefits through access to supplementary services, Opportunity to Reach New Markets, Increased Brand Awareness and Access to New Customer Base.



The responses that supported this finding was “One of the most attractive benefits of an alliance with another business is the opportunity to offer supplementary services to clients that otherwise would not be available. It is vital to a business’ success to focus on its core competencies because when a business becomes a jack of all trades, it becomes a master of none. An alliance allows a company to offer its clients a whole new realm of services without losing focus on its capabilities and its specialized services”

The following responses also supported this finding “Entering a strategic alliance will automatically increase awareness of a brand among an entirely new market that the franchise business has not had the resources to reach beforehand”

Another response that supported this finding was “The opportunity to grow market size with a partnership presents the additional opportunity to increase awareness of the brand. One of the key elements of a business’ success is constant, growing brand awareness. If your brand awareness isn’t growing, your business isn’t growing. Strategic alliances allow an organization to reach a broader audience without putting in extra time and capital.”

#### **4.2.2 Challenges of Joint Venture as a market entry strategy**

The respondents were asked to express their opinions on the challenges that Coca Cola had to go through in the formation of joint ventures. The results indicate that the most important challenge was finding the right partners. In addition, the fear of competition from the strategic partners in case the contract ended was also another challenge facing Coca Cola.

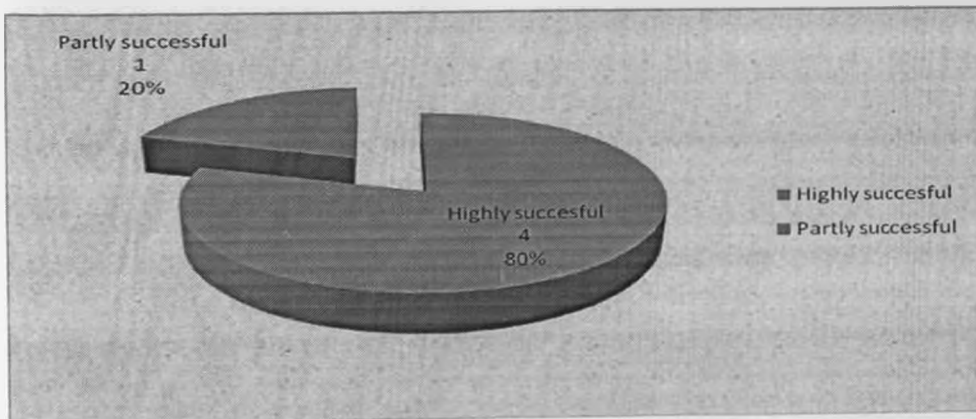
The best response was “Coca cola had a challenge of finding the right partner not just in terms of business focus but also in terms of compatible cultural perspectives and management practices”

The other response that supported this finding was “Another major challenge is that the local partner may gain the know-how to produce its own competitive product or service to rival the multinational firm”

#### 4.2.3 Solution to challenges Joint Venture challenges

The respondents were requested to indicate their opinion on how successful the management of Coca cola has been in addressing the challenges of Joint Venture as a market entry strategy. Results indicated that a majority (80%) of the respondents indicated that the management has been highly successful in managing and addressing the challenges of Joint Venture as a market entry strategy. Results also indicate that 20% of respondents indicated that the management has partly been successful.

**Figure 4. 1: Solution to challenges Joint Venture challenges**



Source: Research Data (2012)

### **4.3 Franchising**

The respondents were requested to indicate the various franchising agreements that Coca Cola Company had entered into and also to indicate the benefits of franchising to Coca Cola Company in Kenya. One of the responses that supported this finding was “Early this year, The Coca-Cola Company has opened a new, state-of-the-art Coca-Cola bottling plant in Hargeisa City, Somaliland. The modern beverage production plant is the first industrial production plant of its kind in Somaliland. The US\$15 million investment by The Coca-Cola Company and its partner, Somaliland Beverage Industries, is part of the Coca-Cola System's commitment to invest US\$12 Billion in the continent by 2020, starting in 2010. The Coca-Cola bottling plant investment in Somaliland is based on a 100pc franchising agreement”.

Another response that supported this finding was “Coca Cola has issued franchises to several companies. For instance, Rift Valley Bottlers Limited is a Coca Cola Bottling company whose franchise territory spans over Rift Valley and Western provinces in Kenya. It is the third largest Coca Cola franchise in the country in volume terms. Mount Kenya Bottlers Limited is a Coca Cola Bottling company whose franchise territory spans over Central & Eastern provinces in Kenya. Kisii Bottlers Limited is a Coca Cola bottling company whose franchise territory spans over parts of Rift Valley and Nyanza Provinces”

#### **4.3.1 Benefits of Franchising to Coca Cola**

The respondents were asked to indicate the benefits that coca cola had gained from franchising agreements. These benefits were financial benefits whereby another source of income was obtained through franchising, operational benefits whereby the franchisor has a smaller central organization, strategic benefit whereby the franchisor

spread the risks and manages competition, administrative benefits whereby the franchisor saves on administration costs.

The responses that best represented this findings were; “Franchising creates another source of income for the franchisor, through payment of franchise fees, royalty & levies in addition to the possibility of sourcing private label products to franchisees. This capital injection provides an improved cash flow, a higher return on investment and higher profits. Other financial benefits that the franchisor enjoys are reduced operating, distribution and advertising costs. Of course that also means more allocated funds for research and development. Additionally, there will always be economies of scale with regard to purchasing power”

Another response that supported this finding was; “The franchisor can have a smaller central organization when compared to developing and owning locations themselves. Franchising also means uniformity of procedures, which reflects on consistency, enhanced productivity levels and better quality. Effective quality control is another advantage of the franchisee system. The franchisee is usually self motivated since he has invested much time and money in the business, which means working hard to bring in better organizational and monetary results. This also reflects on more satisfied customers and improved sales effectiveness”

Another response that supported this finding was; “To the franchisor, franchising means the spreading of risks by multiplying the number of locations through other people’s investment. That means faster network expansion and a better opportunity to focus on changing market needs, which in its turn means reduced effect from competitors”

Another response that supported this finding was; “With a smaller central organization, the business maintains a more cost effective labour force, reduction of key staff turnover and more effective recruitment”

#### **4.3.2 Challenges that Coca cola faces when franchising**

Respondents were requested to express their opinions on the challenges that Coca Cola faces when franchising. These challenges include considerable capital allocation, risks that trade name can be spoiled, risk of undue pressure from franchisee and risks of disclosing confidential information.

The responses that supported this findings included; “Considerable capital allocation is required to build the franchise infrastructure and pilot operation. At the beginning of the franchise program, the franchisor is required to have the appropriate resources to recruit, train, and support franchisees.”

Another responses that supported this findings included; “At the beginning of the franchise program there is a broader risk that the trade name can be spoiled by misfits until such time the franchisor is capable of selecting the right candidate for the business”.

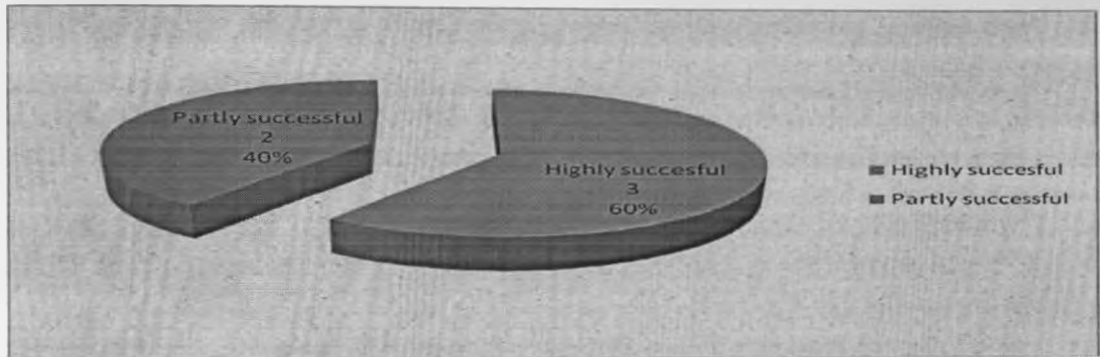
Another responses that supported this findings included; “There is a risk that franchisees exercise undue pressure over the franchisor in order to implement new policies and procedures.”

Another response that supported these findings included; “The franchisor has to disclose confidential information to franchisees and this may constitute a risk to the business.”

### 4.3.3 Success in Mitigating challenges of franchising in Kenya

The respondents were requested to indicate their opinion on how successful the management has been in mitigating these challenges of franchising in Kenya. Findings indicate that a majority (60%) indicated that the management was highly successful while a further (40%) indicated that the management had been partly successful.

Figure 4. 2: Success in Mitigating challenges of franchising in Kenya



Source: Research Data (2012)

### 4. 4 Exporting Market Strategies

The respondents were asked to indicate the exporting opportunities that Coca Cola Kenya has exploited. The respondents indicated that Coca Cola Kenya has formed export strategies especially as far as juice products are concerned.

The response that best supported this answer was “We have rebranded the Local juice bottler Beverage Services Kenya Limited (BSK) in a bid to reposition ourselves as the juice market leader in the region. BSK is now rebranded as Coca-Cola Juices Kenya Limited. This company that operated as Coca-Cola’s juice bottler since 2002 will now

manufacture and export the Minute Maid Brand within the East Africa Community, COMESA and West Africa”

#### **4.4.1 Benefits of exporting to Coca Cola.**

The respondents were requested to indicate the benefits that accrue to Coca cola on exporting its products. The results indicated that some of the benefits that coca cola obtain from exporting include increased sales and profits, gaining global market shares, diversification, lower per unit costs, and compensation for seasonal demands.

The responses that supported these findings were “Selling goods and services to a market the company never had before boosts sales and increases revenues. Additional foreign sales over the long term, once export development costs have been covered, increase overall profitability.”

Another response that supported these findings was “Coca Cola gains Global Market Shares. By exporting to the greatest African market, coca cola participates in the global market and gains a piece of their share from the huge international marketplace.

Another response that supported these findings was “Coca cola gains the advantage of diversification on exporting. Selling to multiple markets allows the company to diversify its business and spread their risk. This implies that Coca cola will not be tied to the changes of the business cycle of domestic market or of one specific country”.

Another responses that supported this findings was “Exporting provides the benefit of Lower per Unit Costs. Capturing an additional foreign market will usually expand production to meet foreign demand. Increased production can often lower per unit costs and lead to greater use of existing capacities.”

Another responses that supported this findings was “Exporting provides Coca cola with a chance to Compensate for Seasonal Demands. Companies whose products or services are only used at certain seasons domestically may be able to sell their products or services in foreign markets during different seasons”

#### **4.4.2 Challenges of Exporting faced By Coca Cola Company**

The respondents were asked to express their opinion on the challenges that coca cola was facing in exporting its products. Results indicate that some of the challenges that coca cola was facing included extra costs, product modification requirement, financial risks and export licences and documentation.

A response that supported these findings was “Exporting leads to Extra Costs. Because it takes more time to develop extra markets, and the pay back periods are longer, the up-front costs for developing new promotional materials, allocating personnel to travel and other administrative costs associated to market the product can strain the financial resources.”

A response that supported these findings was “When exporting, Coca Cola has to consider Product Modification. Coca cola may need to modify their products to meet foreign country safety and security codes, and other import restrictions. At a minimum, modification is often necessary to satisfy the importing country's labelling or packaging requirements.”

A response that supported these findings was “Collections of payments using the methods that are available (open-account, prepayment, consignment, documentary collection and letter of credit) are not only more time-consuming than for domestic



sales, but also more complicated. This entails a financial risk to Coca Cola. Thus, companies must carefully weigh the financial risk involved in doing international transactions.”

Another response that supported these findings was “Coca cola has to contend with Export Licenses and Documentation. Though the trend is toward less export licensing requirements, the fact that some coca cola has to obtain an export license to export its goods make them its competitive. In many instances, the documentation required to export is more involved than for domestic sales”

#### 4.4.3 Success in overcoming challenges of exporting

The respondents were requested to indicate their opinion on how successful the management has been in overcoming the challenges of exporting. Findings indicate that a majority (80%) indicated that the management was highly successful while a further (20%) indicated that the management had been partly successful.

**Table 4. 1: Success in overcoming challenges of exporting**

	Frequency	Percent
Highly successful	4	80%
Partly successful	1	20%
Total	5	100%

Source: Research Data (2012)

#### 4.5 Discussion

This section discusses the finding of the study. The study findings indicated that Coca Cola has used various foreign market entry strategies to venture into multinational

market. These strategies include foreign direct investment, joint ventures, franchising and exporting.

Results indicated that Coca Cola had invested in the company or in new property, plants, or equipment. The company has also resulted to purchase of foreign investments. The findings agree with those in Carpenter & Dunung (2011) who asserted that companies usually expect to benefit through access to local markets and resources, often in exchange for expertise, technical know-how, and capital. The findings further revealed that Coca Cola motives for deciding to choose FDI as an entry strategy was so as to benefit through access to local markets and resources, and also to safeguarding proprietary knowledge such as the patented formula. Study findings also indicated that the factors influencing the choice of FDI as an entry mode were the legal framework, risk of macroeconomic instability, loss of assets due to non-enforceability of contracts and physical destruction caused by armed conflicts. The findings agree with those in Hernández-Catá, (2000) who have shown that the risk factors influencing FDI include macroeconomic instability, loss of assets due to non-enforceability of contracts and physical destruction caused by armed conflicts.

The respondents were asked to indicate whether the company has engaged in joint ventures and strategic alliances and how such it had benefitted from strategic alliances with other companies. Findings indicated that Coca Cola has engaged into strategic alliances with other companies to achieve various company objectives. For instance, it has a joint venture with 6 other bottling companies to produce juices such as minute maid. Results revealed that the company had benefitted in various ways from strategic alliances with other companies. These benefits included access to supplementary

services, Opportunity to Reach New Markets, Increased Brand Awareness and Access to New Customer Base. However, the company faced some challenges during formation of joint ventures. Results indicated that the most important challenge was finding the right partners and the fear of competition from the strategic partners in case the contract ended. The findings agree with those in Carpenter & Dunung (2011) who asserted that once the contract ends, however, the local company may take the knowledge it gained from the joint venture to compete with its former partner. Furthermore, the study findings indicated that the management of Coca Cola Company has been highly successful in managing and addressing the challenges of Joint Venture as a market entry strategy.

In addition, study findings indicated that the company had entered into various franchising agreements early this year. Results further revealed that the company had gained various benefits from franchising agreements. These benefits were financial benefits whereby another source of income was obtained through franchising, operational benefits whereby the franchisor has a smaller central organization, strategic benefit whereby the franchisor spread the risks and manages competition, administrative benefits whereby the franchisor saves on administration costs. However, the findings indicated that the company faced some challenges when franchising, this challenges include considerable capital allocation, risks that trade name can be spoiled, risk of undue pressure from franchise and risks of disclosing confidential information. Finally, the findings indicated that the company management was highly successful in mitigating these challenges of franchising.

The study findings indicated that Coca Cola Kenya has exploited exporting opportunities. This is because the respondents indicated that Coca Cola Kenya has formed export strategies especially as far as juice products are concerned. The results

indicated that some of the benefits that coca cola obtain from exporting include increased sales and profits, gaining global market shares, diversification, lower per unit costs, and compensation for seasonal demands. The findings agree with those in Carpenter & Dunung (2011) who asserted that benefits of exporting include access to new markets which has brought added revenues and increase in profitability and access to foreign exchange.

However, results indicated that some of the challenges that Coca Cola was facing included extra costs, product modification requirement, financial risks and export licences and documentation. All in all the findings also indicated that the management was highly successful in overcoming the challenges of exporting.

#### **4.6 Chapter Summary**

The chapter dealt with the presentation, interpretation and discussion of findings. Findings indicate that some of the factors influencing the choice of FDI as a market entry strategy were due to the protection of the secret formula and the benefit of access to local markets and resources. Factors affecting choice of FDI include the regulatory framework. Challenges faced by coca cola while adopting joint ventures include finding the right partners and the fear of competition from the strategic partners in case the contract ended. The chapter findings were used in the next chapter (Chapter Five)

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

From the analysis and data collected, the following discussions, conclusions and recommendations were made. The responses were based on the objective of the study. The researcher had intended to determine the market entry strategies that Coca Cola had adopted.

#### 5.2 Summary of the Findings

This section dwelt on the summary of the findings generated from data analysis. The summary was done along the objectives of the study.

The objective of the study was to determine the market entry strategies that Coca cola had adopted. Findings indicated that Coca Cola has used various foreign market entry strategies to venture into multinational market. These strategies include foreign direct investment, joint ventures, franchising and exporting.

Results indicated that Coca Cola had invested in the company or in new property, plants, or equipment. The company has also resulted to purchase of foreign investments. The findings further revealed that coca cola motives for deciding to choose FDI as an entry strategy was so as to benefit through access to local markets and resources, and also to safeguarding proprietary knowledge such as the patented formula. Study findings also indicated that the factors influencing the choice of FDI as an entry mode were the legal framework, risk of macroeconomic instability, loss of

assets due to non-enforceability of contracts and physical destruction caused by armed conflicts.

The respondents were asked to indicate whether the company has engaged in joint ventures and strategic alliances and how such it had benefitted from strategic alliances with other companies. Findings indicated that Coca Cola has engaged into strategic alliances with other companies to achieve various company objectives. For instance, it has a joint venture with 6 other bottling companies to produce juices such as minute maid. Results revealed that the company had benefitted in various ways from strategic alliances with other companies. These benefits included access to supplementary services, Opportunity to Reach New Markets, Increased Brand Awareness and Access to New Customer Base. However, the company faced some challenges during formation of joint ventures. Results indicated that the most important challenge was finding the right partners and the fear of competition from the strategic partners in case the contract ended. Furthermore, the study findings indicated that the management of Coca Cola Company has been highly successful in managing and addressing the challenges of Joint Venture as a market entry strategy.

In addition, study findings indicated that the company had entered into various franchising agreements early this year. Results further revealed that the company had gained various benefits from franchising agreements. These benefits were financial benefits whereby another source of income was obtained through franchising, operational benefits whereby the franchisor has a smaller central organization, strategic benefit whereby the franchisor spread the risks and manages competition, administrative benefits whereby the franchisor saves on administration costs. However, the findings indicated that the company faced some challenges when franchising, this challenges include considerable capital allocation, risks that trade

name can be spoiled, risk of undue pressure from franchisee and risks of disclosing confidential information. Finally, the findings indicated that the company management was highly successful in mitigating these challenges of franchising.

The study findings indicated that Coca Cola Kenya has exploited exporting opportunities. This is because the respondents indicated that Coca Cola Kenya has formed export strategies especially as far as juice products are concerned. The results indicated that some of the benefits that coca cola obtain from exporting include increased sales and profits, gaining global market shares, diversification, lower per unit costs, and compensation for seasonal demands. However, results indicated that some of the challenges that coca cola was facing included extra costs, product modification requirement, financial risks and export licences and documentation. All in all the findings also indicated that the management was highly successful in overcoming the challenges of exporting.

### **5.3 Conclusions**

Following the study findings it was possible to conclude that Coca Cola Company has ventured into various foreign market entry strategies in order to increase its customer base and its profits. These market entry strategies include foreign direct investment, joint ventures, franchising and exporting.

It was also possible to conclude that there are various factors influencing the choice of marketing strategy as an entry mode were the legal framework, risk of macroeconomic instability, loss of assets due to non-enforceability of contracts and physical destruction caused by armed conflicts.

It was also possible to conclude that all market entry strategies faced various challenges but the management was successful in overcoming the challenges.

## **5.4 Recommendations for policy**

The study recommends that multinational firms should continue investing in various foreign marketing strategies so as to meet the company objectives and mission.

It is also recommended that the company should study the marketing environment before adopting any strategy so as venture into the strategies which best their company.

## **5.5. Limitation of the Study**

The study findings accuracy was limited to the extent to which the respondents were honest in responding to questions. Given the sensitive nature of data collected, there may have been likelihood of answering questions in a certain way so as to avoid giving away crucial and confidential strategic secrets. This was despite the assurance that the study information would be used in a confidential manner. In addition, the findings may not be generalized to other firms because the environments of the other firms are different from the Coca cola operating environment and the overall manufacturing sector. From a contextual standpoint, the current study fails to demonstrate whether other manufacturing firms use the same market entry strategies.

Major conceptual gaps in current study are attributed to the fact that the study could not establish empirically the statistical relationship between the choice of a market entry strategy and the financial performance of Coca cola.

## **5.6 Suggestion for Further Research**

The researcher recommends that a replicate study be done on other beverage manufacturing firms so as to find out what other manufacturing companies adopt as market entry strategies. The researcher further recommends that a similar study be



done on non manufacturing firms for the purposes of benchmarking. In addition, a statistical regression model should be established to estimate the relationship between choice of market entry strategies and financial performance.

Another area of study would be to determine the competitive strategies that Coca cola uses. A swot analysis would also be conducted to determine the strengths, weakness, opportunities and threats that Coca cola is faced with.

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## APPENDICES

### Appendix I: Letter of Introduction

Dear Respondent,

I am a postgraduate student at the School of Business Studies, University of Nairobi pursuing a degree in Master of Business Administration (MBA) in International Business Management. As part of partial fulfilment for the degree I am conducting a research paper on “Foreign Market Entry Strategies by Multinational Corporations in Kenya: A case of Coca Cola Kenya Ltd”.

I would be obliged if you played a part in this study by giving me information to the attached interview guide. The information given will be treated with strict confidence and will be used for academic purposes only. A copy of the final report will be availed to you upon request.

Your assistance and co-operation on this matter will be highly appreciated.

Yours faithfully

**Daniel C. Kwemoi**

MBA student

**Dr. John Yabs**

Supervisor



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DATE 08/08/12

**TO WHOM IT MAY CONCERN**

The bearer of this letter DANIEL KWEMOI CI+EP.TEGE/

Registration No. D61/60161/2011

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.



IMMACULATE OMANO  
MBA ADMINISTRATOR  
MBA OFFICE, AMBANK HOUSE

## **Appendix II: Interview guide**

### **Goals of the Interview process**

The objective of the study is to investigate the foreign market entry strategies adopted by Coca Cola in entering the Kenyan Market.

### **Foreign direct Investment (FDI)**

1. What aspects of FDI is the Coca Cola Company involved in?
2. What motivated Coca cola to use FDI as an entry strategy
3. What factors did the management consider when choosing foreign direct investment as a market entry strategy?

### **Joint Ventures or Strategic Alliances**

4. Has the company engaged in joint ventures and strategic alliances?
5. In what ways has the company benefitted from strategic alliances with other companies?
6. What are the challenges experienced by the company in Joint Ventures or Strategic Alliances in Kenya?
7. How successful has the company been in solving the challenges experienced by the company in strategic alliances in Kenya?

### **Franchising**

8. According to you, what are the various franchising agreements that Coca Cola Company has entered into.

9. What are the benefits of franchising to Coca Cola Company in Kenya?
10. What are challenges The Coca Cola Company has experienced in terms of franchising in Kenya?
11. How successful has the management been in mitigating these challenges of franchising in Kenya?

### **Exporting**

12. In your opinion, what are the exporting opportunities that coca cola Kenya has exploited?
13. What benefits does exporting hold for Coca cola?
14. What are the challenges experienced by the company in exporting its products Kenya?
15. To what extent has the company been able to successfully overcome the challenges experienced in exporting?