RESPONSIVENESS TO CHALLENGES OF GLOBALISATION BY KENYA WINE AGENCIES LIMITED

BY

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DECLARATION

This Research Project is my original work and has not been presented for a degree in any other university.

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Njeng'wa Nephat Ngigi Date

REG: NO. D61/P/8884/2004

The Research Project has been submitted for examination with my approval as the university supervisor.

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Dr. Zachary Bolo Awino Date

DEDICATION

I dedicate this Research Project to my late mum Mrs. Teresia Kabura Njeng'wa. She was a lovely mother and a great friend from whom I derived a lot of inspiration and positive thinking for more than thirty years. May the Almighty God rest her soul in eternal peace. I also dedicate this project to my family starting with my lovely wife Esther Wamoro Ngigi, our sons Kevin Njeng'wa Ngigi and Brian Karori Ngigi. I love you all and you are ever in my heart.

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TABLE OF CONTENTS

ABSTRACT

Chapter one introduces the subject of the study and the importance of appreciating the concept of Globalization within the business concept. The Historical review of KWAL which is a company in beverage market specifically in wines and spirits is covered and also an overview of the global beverage market. The challenges of Globalization to KWAL are highlighted in the statement of the problem and the research question is to inquire into KWAL responsiveness to the challenges brought by Globalization since the early nineties after liberalization of Economy in Kenya. The importance of this study and how it adds to the existing knowledge is also underscored in this chapter. Chapter two is on literature review and focuses on environmental dependency of organizations. It looks at how the environment has changed overtime affecting the appropriateness of the strategies employed in different situations. The concept of strategic issue management in hypercompetitive conditions is brought up and how global trends are leading to increased business turbulence. The concept of external environment with its impact to the business is reviewed with a greater emphasis on industry environment. The concept of liberalization which accelerated Globalization in Kenya in the nineties is also reviewed. The Concept of Globalization is also reviewed from an economic and business perspective. Chapter three is about the methodologies used to collect and analyze the data. Qualitative content analysis ratio analysis and performance trending have been used to analyze the data which is from both primary and secondary sources. Chapter four presents data analysis and interpretations which includes the impact of Globalization to KWAL and the strategies used to respond to Globalization challenges have also been analyzed. The impact of Globalization and strategies employed is supported by way of statistical data from historical records in form of tables and appendices.. Graphs on the financial data are also provided in the appendix VI. Chapter five summarizes the findings and the effectiveness of the strategies that have been adopted by KWAL to respond to challenges of Globalization. Recommendations based on existing theories and practices on what would have been the most appropriate strategies are included in this chapter. The limitations of the of the study are also highlighted with suggestion for further studies made at the end.

List of Acronyms and Abbreviation

BSKL – Beverage Services Kenya Limited

CSD – Carbonated Soft Drink

DRC – Democratic Republic of Congo

EEC - European Economic Community

ESA - Enhanced Structural Adjustment

FAO – Food and Agriculture Organisation

FMCG – Fast Moving Consumer goods

IMF – International Monetary fund

ICDC - Industrial & Commercial Development Corporation

KCC - Kenya Co-operative Creameries

KLD – Kenya Liquor Distributors

KWAL – Kenya Wine Agencies Limited

KWA HOLDINGS E.A. – Kenya Wine Agency Holdings East Africa

LTRS - Litres

RTD – Ready To Drink

SAP's – Structural Adjustment Programmes

UDV – United Distillers Vintners

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

KWAL is one of the oldest wines and Spirit Company in Kenya. It was incorporated in 1969 and has operated in different economic situations that have faced the country since independence. One of the extreme economic situations in Kenya was Africanization of economy after independence in 1963 which was characterized by protectionism of the economy through imports restrictions, restriction of ownership of local companies by foreigners and participation of Government in business. The other extreme was liberalization of economy in the early nineties when the Government gave in to pressure from international donors. This period was characterized by severe global competition and many big and small companies that were ill prepared were pushed out of business by severe competition. With continued advancement of telecommunication technology, the situation got worse reducing the world to one global market characterized by highly volatile business environment. KWAL has operated in both extremes and this research paper is designed to inquire how KWAL has responded to the ever increasing challenges of Globalization since early nineties.

1.1.1 Responsiveness to Challenges of Globalization

Globalization has in the recent years led to changes in the environment challenging the core business of many organizations in Kenya. These two factors have raised the level of environmental turbulence high leading to closure of many businesses in the mid 1990s (Githinji 2009). According to Githinji (2009) Kenya and many developing countries obliged to the demands of development partners and opened doors to competition through liberalization of the economy in the early 1990s without due diligence, preparation and training for local companies that did not fully understand the impact of Globalization. With Globalization, there is a big change happening because the global economy has gone real time and it is no longer cyclical change but structural change that will determine in how the business will make money in future (Githinji 2009). According to Githinji 2009, Globalization is a force that touches all businesses, even those that seemed too specific, local or small to worry about it. Companies in Kenya and Africa at large senses the business conditions are different in globalized economy, yet few grasp just how fundamental the changes are and how swiftly they are overtaking business of all kinds (Githinji 2009).

Globalization is a combination of economic, technological, sociocultural and political forces (Anonymous 2004). Globalization is often used to refer to economic Globalization, that is, integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and the spread of technology (Anonymous 2004). Globalization has been there for a long time in various forms but the process has accelerated over the last fifty years. According to Sull (2000), many companies plummet from the pinnacle of success to depths of failure when market condition changes. Big companies operating in global market need to constantly monitor the market at global level and initiate changes that may include reconsidering their core business to ensure survival.

According to Blee (2003) the European brewing industry faced increasing competitive pressure of operating within the global markets causing consolidation through acquisition, alliances and closures within the industry. Interbrew,s market trend survey shows that the consolidated global share of the top twenty brewers increased from fifty one percent in 1990 to sixty five percent in the year 2000 (Blee 2003). South African Breweries was renamed SABMiller following its acquisition of the American brewer Miller in 2002 becoming the second brewer by volume in the world (McQuade 2004). According to Sull (2000) Fire stone had an interrupted growth of tyre the market but this came to an end when Michelin introduced more safer and economical radial tyres while firestone continued producing the conventional tyres. Wal-mart, chain of store is a good example of an organization that has successfully leveraged on technology to apply low price based strategy at global level for about 45 years with over 5,000 stores in ten different countries making it one of the most successful retail chain in the world in recent times (Yoffie 2005). KWAL was not spared from the impact of liberalization and Globalization and has gone through many challenges in the last twenty years. The level of environmental turbulence has increased drastically since early 1990s and like many other companies in Kenya, Kwal was caught unaware.

1.1.2 History of KWAL

KWAL was established in May 1969 under the Company's Act (Cap 486) as a joint venture between the Government of Kenya through the Industrial & Commercial Development Corporation (ICDC) and other private investors. The objective was to enable indigenous Kenyans to participate in the Wines & Spirits Industry (importation & distribution), which was hitherto dominated by foreign owned companies. The Company through the Government protection policies of infant industry enjoyed a monopoly status in the Wines and Spirits Sector, up until the early 90's (1992/93) when the economy was liberalized through the then SAP's driven by the Bretton Woods Institutions. With the advent of liberalization, the Company found itself faced with stiff competition from an influx of importers of Wines and Spirits at a lower scale, lower overheads operations and with more efficient offers rapidly taking a considerable share of the market.

The Company, like many other monopolies, was ill prepared for competition and did not adjust and reinvent itself to face the emerging competitive challenges and continued to lose market share thus experiencing a gradual decline in output and performance. Among the main entrants in the Wines and Spirits segment were Companies such as Wine Masters, Wines of the World/African Spirits, Keroche Industries, London Distillers, Nairobi Vintners, Viva Product Line, UDV, and several other small and medium scale manufacturers targeting the bottom end of the market. However, the Company has been and is still a major supplier of Wines & Spirits serving the domestic, tourism and export markets. The current shareholding includes: ICDC (72.65%) Centum (26.43%), Distributors (0.92%). The mandate of KWAL is defined in the Articles and Memorandum of Association, which includes importation of Wines & Spirits (bulk & finished products) manufacture, processing and bottling, distribution and marketing in Kenya and beyond.

The company currently has customer service distribution centres in Nairobi, Nakuru, Kisumu, Mombasa and Nyeri. The Company has a subsidiary in Uganda and Rwanda, serving the domestic market and re-export to the Great Lakes region. KWAL is also actively involved in Travel Duty Free Retail with outlets in:- Jomo Kenyatta Internation Airport, Moi International Airport and Kigali International Airport. The Company also has a subsidiary called Yatta Vineyards. Yatta Vineyards is a 250 acre farm situated in Yatta Division, Machakos District, with over 100 acres serviced with drip irrigation system and 90 acres Vineyard established in 1992.

1.1.3 Corporate Structure and Ownership

The company in its current set up is divided in three business components: (a) KWAL HOLDINGS E.A. Limited is an Investment and umbrella holding Company. The holding company consists:- KWAL (100%), Yatta Vineyards (100%) and Uchumi Supermarkets (6.25%), (b) KWAL the trading arm of the group engaged in importation, manufacturing, bottling and distribution activities. It is a wholly owned subsidiary of KWA Holdings E.A. Limited, (c) Yatta Vineyards Limited, a raw material (grapes & fruits juices) arm of the group engaged in farming and production of raw materials for processing and manufacture. It is a wholly owned subsidiary of KWA Holdings E.A. Limited. The formation of Yatta Vineyards was a backward vertical integration strategy as it would provide grapes as the raw materials for the winery of KWAL. (d) Rwanda Duty Free SARL, a Travel Retail Duty Free outlet engaged in retailing of Wines & Spirits and other travel duty free in Kigali Rwanda. It is a wholly owned subsidiary of KWAL (e) KWAL Uganda, a trading foreign registered Company in Uganda engaged in importation, distribution and marketing of wines & Spirits in Uganda. The Company has a Board of Directors entrusted with Corporate governance including promulgation and exposition of policy to provide strategic direction of the Company. The Board membership is made up of a Chairman appointed by the president for a term of three years, two independent directors appointed by the President for a term of three years, Permanent secretary Ministry of trade, Permanent Secretary Ministry of Finance, ICDC, Centum and KWAL Managing Director. The ICDC and Centum are represented in the Board by virtue of their shareholding, while the rest are appointed by the Government.

1.1.4 Overview of Global Beverage Market

Beverages are a diverse group of commodities ranging from the most basic and essential drink such as water, to the most ardent of spirits such as whiskies, Brandy or vodka. A beverage is a drink specifically prepared for human consumption. Beverages can be consumed hot or cold. They may be carbonated or may not be carbonated and may be alcoholic or non alcoholic. Alcoholic beverages can be classified based on method of processing including fermentation, distillation, blending and packaging. Generally, alcoholic beverages can be classified in several broad categories ranging from: (1) Beer which can be malt or barley, (2) Spirits which includes Whisky, Brandy, Gin, Vodka, Tequila, Vermouth, Bitters and Rum, (3) Wines which can be White, Red, Rose, and Sparkling (3) Liquors.

An alcoholic beverage is a drink containing ethanol, commonly known as alcohol, although there are many types of alcohol. Non-alcoholic drinks are varied and include – water, coffee, tea & fruit Juices among others. Bottled water is a fast growing phenomena world over in both developed and non-developed countries. EEC defines fruit juice as juice obtained from the fruit by mechanical process, but unfermented having the characteristic colour odour and flavour typical of the fruit from which it comes. Fruit nectars under EEC directive are defined as unfermented but fermentable products obtained by the addition of water and sugars to fruit juice, concentrated fruit juice and fruit puree. Nectars contain up to 20% added sugar or honey.

Bottle water emerged as one of the largest commercial beverage category by volume in the United States in 2003 and has continued to grow with unparallel volume. The category is growing even more forcefully on a global scale. According to the Beverage Marketing Corporation the top beverage brands globally includes; (1) CSD, (2) Bottled water, (3) RTD, (4) Tea, (5) Coffee, (6) Fruit beverages, (7) Sports beverages, (8) Energy Drinks, (9) Distilled Spirits and (10) Wines. While CSD still have the highest volume world over – twice as high as bottled water, the soft drinks market has been facing severe competition from bottled water which has doubled in volume in a decade. According to the Beverage Marketing Corporation, liquid beverages enlarged by 3.2% in 2005 in the United States. The growth of alcoholic beverage market continues to be dominated by beer at 3.1% in 2004/5 of the entire liquid beverage sector second from bottled water at 6.5% followed by wines at 1.3%. Distilled spirits decreased by 0.7% in 2004/5 after recovering in 2003/04 when it grew at 2.1%. The global beer market compounded annual growth rose from 1.1% between 1980-85 to 2.8% from 1998-2005. The growth rate has stabilized at 2.8% on the back of extremely large volumes in the market place.

Whereas Europe continues to dominate in the global beer market, Africa's volumes are relatively quite small and its production is beneath the global average with the global market share being fairly constant in the last decade. Africa's beer market share is estimated at approximately 4.5% of the global market share. The global Wines and Spirits market is dominated by a number of large players transcending the continents and specializing either in Wines or Spirits. The leading Distilled spirits companies include:- (1)Diageo (Johnny Walker & Smirnoff) (2) Pernod Ricard (3) Whyte & Mackay (4) Fortune Brands (Jim Beam) (5) Edinbungton group (Famous Grouse) and (6) Barcardi. The leading Wine companies dominate in their region of origin while a few have transcontinental operation. In general, wines are viewed in terms of their origin – Europe, France, Italy, Spain, Africa (South Africa, Capetown) North. America (California, Canada) and South. America (Chile, Argentina). Wine is an alcoholic beverage made from the fermentation of unmodified grape juice. The natural chemical balance of grapes is such that they ferment completely without the additions of sugars, acids, enzymes or other nutrients. The highest producer of wine in the world is France and Italy at over 5 million litres in 2005 followed by Spain with 3 million litres & USA with 2 million. Wine is produced in about 70 countries in the world spread over the 5 continents according to FAO. Wine is classified by regions (appellation) in the traditional wine producing regions of Europe while in the new world (non-traditional grower), it is classified by grape type either Pinot, Chadonnay, Merlot, Cabarnet Sauvignon, Sauvignon Blanc and others. Australia is one of the countries that has gained a market niche by classifying it wines by grape type (Anonymous 2001,2003).

1.2 Statement of Problem

Over the last 20 years KWAL has been faced with many challenges as opposed to earlier years where it was operating in an almost monopoly status in the wines and spirits market before liberalization of the economy. The effect of liberalization and Globalization brought new challenges and various industry factors such as entry barriers, rivalry in the market, substitution, buyers and suppliers power have been affected. Liberalization has reduced entry barriers which in effect has increased competition at global level and consequently increased product substitution and buyers power. It's evident that the company has over this period tried different strategies such as expansion, diversification, and cost rationalization eventually converting itself to a fairly complex business in an effort to respond to the impact of Globalization.

The responsiveness of KWAL to the impact of liberalization and Globalization has also been affected by the fact that it's a state corporation as opposed to its private competitors in the industry. The state corporation status has further compounded the complexity of its business environment due to political influence attributed to high regulatory framework that the company has to adhere to. The case for KWAL was different before liberalization as it was operating as an almost monopoly and hence its responsiveness to competition did not matter. The environment of state corporations is complex phenomenon in Kenya and has not yet been adequately conceptualized. It's more unpredictable and less stable than that of private enterprise mainly because its social political contents are very large

(Edwards 1967). Sometimes depending on the nature of public corporations, the environment becomes turbulent, confusing the public corporation manager of the organization in the process (Edwards 1967). Edwards further stated that public corporations have numerous objectives, more ambiguous and less distinguishable from qualifying conditions, moreover they fluctuate in their supposed order of priority, not merely from government to government, nor even from year to year but almost from day to day at the whim of public and parliamentary opinion. Nyaberi (2004) observed that the government of Kenya chose to use blackmail and financial muscle to determine the course of events, actions and decisions at KCC. Koske (2003) attributed government regulation to have been a major challenge of strategy implementation of Telkom Kenya Limited. Choke (2006) found out that strategic planning in state corporations is linked to performance contracting by the Government. Only a few studies (Koske, 2003; Aosa, 1992; Karanja, 2004; Ongaro, 2004; Nyamberi 2004; Ng'ang'a, 2004) have studied on strategic planning practices in Kenya Public Corporations (Choke 2006).

This study will add to the existing knowledge in this area and will review the various major strategies implemented by Kwal over the last twenty years in responsiveness to challenges brought about by Globalization. The Study will attempt to answer the question on how KWAL has responded to the impact of Globalization.

1.4 Research Objective

The objective of this study was to inquire into Kwal responsiveness to the challenges brought by Globalization since the early nineties after the Liberalization of economy.

1.5 Importance of the study

Kenya wine Agencies is one of the oldest names in Kenya in the wine and spirit industry. A study on responsiveness to challenges of liberalization and Globalization has not been done over the study period. This study will be useful to the various stakeholders of KWAL such as management and employees, shareholders and Government who may rely on the findings to make decisions about the company. To academicians, this study will add to currently existing strategic management studies of public enterprises. To the students of strategy this will be a useful case study for class and other discussions on Globalization challenges in strategy implementation of KWAL one of the oldest public enterprise in the industry of alcoholic beverages. The findings and conclusion from this study can be compared against existing literature in strategy and lead to useful class discussions.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Unlike most of the subjects of study such as mathematic, Chemistry or even economics strategic management lack on an agreed up internally consistent, empirically validated body of theory. Though it employs theory and theoretical concepts these are drawn mainly from Economics, Psychology, Ecology and Sociology Principally on an ad-hoc basis (Robert and Grant 1998). Robert and Grant indicated that there are simply too many variables to reduce strategy to programmed algorithms

Before 1950s the concept of strategy was not very clear. Strategy was then used in military circles where it was defined as the science and art of deploying forces for battles (Ansoff and Mc Donnell 1990). After 1950s when response to environmental discontinuities became important, the concept of strategy entered the business circles. According to Ansoff and Mc Donnell (1990) strategy is a set of decision-making rules for guidance of organizational behavior. According to Johnson et al (2005) strategy is the direction and scope of an organization over long-term, which achieves advantage in a changing environment through its configuration of resources and with the aim of fulfilling stakeholder expectations. Pearce et al (2008) defines strategy as set of decisions and actions that result in the formulation and implementation designed to achieve a company's objectives. Mintzberg, Quinn & Goshal (1998) defines strategy as a set of objectives, policies and plans that, taken together, define the scope of enterprise and its approach to survival and success. From the above definitions one can broadly conclude that strategy is the means by which a company achieves its objectives. Mintzberg et al (1998) observe that a good strategy must be consistent in terms of goals and policies, must adaptively respond to changes in the environment, must provide a competitive advantage in a specific activity and must not overtax available resources or create unsolvable sub problems. Some writers have argued that it is unnecessary to develop strategies as the environment changes with speed such that planned strategies will be overtaken by events before implementation (Andrews, 1971).This chapter will review the impact of Globalization and the various strategies that can be used to counter the impact.

2.2 Organization Dependency to the Environment

Organizations are environment dependent. Organizations exist in an environment from which they derive their inputs and give back their output. Input dependence means that organizations take resources such as labour, raw materials, capital and infrastructure from the environment. The organization undertake the process of transforming the inputs into outputs and give back the same to the environment. This input output model applies to all types of organization whether in service or product based industry. Its therefore imperative for all organizations to monitor the changes in the environment and adapt to them. According to Johnson et al (2005) complexity in environment arises because most of the issues in the environment are interconnected. For example, changes in technology may lead to changes in the nature of work which in turn may lead to changes in lifestyle which alters consumer behavior and purchasing patterns for goods and services. The whole study of strategy is about understanding the relationship between the organization and environment. Organizations therefore cannot exist without a strategy but the complexity of the strategy depends on the stability of the environment. In fairly stable environment, sustainability of the strategy is easy as opposed to unstable environment.

Shift in environment present a host of opportunities and threats to organizations operating in that environment. Management of any organization should keep abreast with the changes happening in the environment to identify the opportunities and threats brought about by the changes. According to an Ansoff and McDonnell (1990) a shift in environment requires a strategic response by shifting the current strategy through aligning it to the new environment. For the new strategy to be successful, internal capability must be reviewed to support the new strategy. According to Ansoff and McDonell (1990) there must be a fit between the environment, strategy and internal capability for an organization to be successful. According to Ansoff and Mcdonell (1990) there are new environmental challenges in the nineties which are numerous, discontinuous diverse and complex. Ansoff has come up with strategic support hypothesis which state a firm performance potential is optimum when the aggressiveness of the firm’s strategic behavior matches the turbulence in its environment, the responsiveness of the firm’s capability matches the aggressiveness of its strategy and the components of the firm’s capability must be supportive of one another.

Over the last two centuries, many changes have occurred in the environment triggering major shifts in ways of carrying out the business. Between 1820 and 1830 there major construction of infrastructure leading to unified market (Ansoff and Mcdonell 1990). This was followed by major inventions especially in the united states such as steam engine, cotton gin and vulcanization of rubber (Ansoff and Mcdonell 1990). In the 1880, the concept of competitor was to eliminate him or absorb him rather than meet him head on in the market as we know it today (Ansoff and Mcdonell 1990). The mass production came between 1900 to 1930 to reduce unit cost.

Between 1930 to 1950 the demand was on its way to saturation due to mass production (Ansoff and Mcdonell 1990). Most companies had to shift their focus from mass production market focus. Marketing dominated operations at the expense of production efficiency. In the 1950s, increasing and cumulating events began to change the boundaries, the structure and dynamics of business environment (Ansoff and Mcdonell 1990). Firms confronted with novel and unexpected challenges were so far reaching that Peter Drucker called the new era an age of discontinuity. Changes became increasingly complex, novel and discontinuous from past experience (Ansoff and Mcdonell 1990). Since 1950s the challenges have increasingly become simultaneous (Ansoff and Mcdonell 1990). This has led to the need for revival of entrepreneurship for response to the increasing intensity of global competition and societal involvement in determining how the firm is to be run and what role it should play in the post industrial society (Ansoff and Mcdonell 1990). Another distinctive characteristic of the twentieth century has been acceleration of both incidence and diffusion of change. Change became less predictable and surprise more frequent.

It's worth noting that the above changes in the environment did not occur simultaneously across the various continent of the world (Ansoff and Mcdonell 1990). The dates will be more relevant to countries like United States of America and Britain with most of the other European countries following closely. The development of information and communication technology has made most of the changes occurring across the globe to be simultaneous and has reduced the whole world to a global village through internet and mobile phones providing connectivity and flow of information on a real time basis. This development in the technological environment has redefined competition in the modern business environment.

2.3 Competitive Strategy in Hypercompetitive Conditions

In the context of global economy many organizations are faced with turbulent fast changing, uncertain business environments and increased level of competition. This kind of environment is referred to hyper competitive which occurs where the frequency, boldness and aggressiveness of dynamic movements by competitors accelerate to create a condition of constant disequilibrium and change (Johnson et al 2005). In hyper competitive environment an organization must acknowledge that competitive advantage cannot be sustainable and will be temporary.

Ansoff and Mc- Donnell (1990) have developed a five level model for gauging the degree of environmental turbulence. Level one which is characterized by repetition and strategies can be based on precedent. Level two is characterized by slow incremental change. Strategies at this level are reactive, incremental and based on experience. Level three is characterized by fast incremental changes. The strategies at level three are anticipatory, incremental and based on extrapolation. At Level four, the turbulence is discontinuous but predictable. Strategies at level four should be entrepreneurial, discontinuous and based on expected futures. Level five of environmental turbulence is discontinues and unpredictable. Strategies at level five require creativity and are temporary and hence discontinues. Business portfolio analysis matrices have been used to develop strategies at level one to three. Annsoff and Mc Donnell (1990) have come up with strategic issue management that addresses strategic issues at level four and five. Strategic issue management constantly monitors the environment to identify strategic issues for immediate action.

2.4 Situation/ Environmental Analysis

Organizations are dependent on the environment since they exist to serve the environment. Changes in the environment need to be monitored closely as this may spell doom or success for the organizations. In developing strategy certain observable processes have been employed by various organizations especially large and formally managed organizations with complex businesses (Pearce et al 2008. These processes includes determination of company mission, environmental analysis, strategic analysis and choice, development of long-term objectives, development of generic and grand strategy, coming up with short term objectives, determination of functional tactics and strategies, strategic control, innovation and entrepreneurship (Pearce et al 2008). As mentioned above, most of the large and formally managed firms have come up with distinct processes of strategic management. One of the critical strategic management processes that lead to the firm crafting its long term strategy is the situation analysis or what is commonly known as environmental analysis. It would be futile or guess work for any organization to come up with its strategies without environmental analysis as these strategies are meant to react to the opportunities and challenges that are in the environment. Environmental analysis can be broadly divided into external environment and internal environment (Pearce et al 2008). For the purposes of this study external analysis will be reviewed since Globalization falls within the external environment.

2.4.1 External Analysis

External environment is made up of factors beyond the control of the firm that influence its choice of direction and action and organizational structure and internal processes (Pearce Etal 2008). Pearce Etal (2008) divide external environment factors further into remote environment, industry environment and operating environment.

Remote environment is beyond the influence of the firm and is made up of economic factors, social factors, political factors, technological factors and ecological factors (Pearce et al 2008). Any organization should continuously study the Remote factors and assess their impact to the business as they usually present opportunities and threats. These factors should be studied at local and global level as information technology has reduced the word to a global village.

The concept of industry environment refers to the general conditions that influence all businesses that provide similar products and services (Porter 1985). Key issues to be considered in industry analysis includes degree of competition in the industry, dominate economic features, drivers of change in the industry and key success factors in the industry. Porter (1985) defines industry as all segments for which the segment interrelationships are very strong. It is therefore not easy to draw an industry boundary until structural analysis that exposes all the key determinants for competitive advantage of the industry is carried out. Porter (2008) argues that many strategy errors emanate from mistaking the relevant industry, defining it too broadly and too narrowly. Different scholars and laymen have their own definition of industry but porters five forces model is one of the most popular models for defining the industry. Farrel (2004) has come up with a way to measure the degree of Globalization in a given industry which involves calculating the ratio annual value of global trade (which includes components shipped to multiple countries as part of the production process as well as finished good) to the annual value of industry sales.

The five forces include threats of new entrants, rivalry within the industry, threat of substitute products, supplier power and buyer power. The forces tend to vary in different industry and over time. This brings the need for the organization to consider other factors given its context. Aosa (1996) has added power play and corruption as additional factors to the five forces model, mostly applicable in developing economies. The organization therefore needs to consider its stand against all the factors in the industry as it comes up with a new strategy. For instance, if an organization is planning to venture into a new industry it must consider its resources that will enable it to overcome entry barriers such as economies of scale, capital requirements, access to distribution and government policy. This consideration is even more important when considering entry into international market. Ghemawat (2001) has provided a rational approach to evaluating global opportunities by breaking distance into four dimensions which includes cultural distance, administrative distance, geographical distance and economic distance. Companies routinely exaggerate the attractiveness of foreign markets, and that can lead to expensive mistake and the above rational approach would help reduce such mistakes. It will also consider rivalry in the market which could be influenced by the growth rate, brand identity and product differences. Such factors will be critical for an organization in determining it marketing budget. An industry characterized by many substitute products will also require different strategies in marketing and pricing. In environments where the supplier dictate terms the organization may have to look beyond such suppliers or may need to look at strategies such as mergers and acquisition that may be instrumental in consolidating the market, The reverse may apply in a situation where the buyer is able to dictate the terms.

According to Porter (1985) dominant economic feature in an industry refers to an outstanding factor that characterizes the industry. Dominant features are therefore dependent on the industry and will include features like market size, market growth rate, scope of competitive rivalry Distribution channels used, learning and experience effects. Distribution Channel is key in Alcoholic beverage since beverages are FMCG goods with many substitutes in the market. According to Porter (1985) a driver of change in an industry refers to what is causing change in the industry. This therefore implies that a static environment lack drivers of change. These may includes change in long-term growth of the industry, changes in buyers of the product, changes in uses if the product, product innovation, market innovation, technological changes, Globalization and government policy. According to Porter (1985) a key success factor is a factor that enables a firm in the industry to succeed. Factors may be many but those that enable the firm to succeed are few. This may vary from factors like management, human resources, equipment facilities cost of production and operations, prices or rates, product quality, customer care, image and reputation. Key success factors in an industry can be identified through experience, expert opinion and research (Porter 1985). An organization should strive to be competent on all key industry success factors and to excel in at least one such factor (Porter 1985). Key success factors normally forms the basis of competitive analysis. An analysis for the firms in the industry on selected key, success factors can be done through a research expert opinion or Judgment.

2.5 Liberalization in Kenya

Liberalization refers to a relaxation of previous government restrictions, usually in areas of social or economic policy. Liberalization of Autocratic regimes precedes democratization. According to Makau, Ngugi, Were (2003) the need to liberalize the Kenya economy was realized in early 1970s following external shocks that resulted into Macroeconomic instability, a comprehensive reform program was only implemented in 1990s. Makau et al further found that to facilitate in the liberalization process, Kenya received structural adjustment lending from the World Bank and also ESA facility loan from IMF. The reforms were expected to restore macro-economic stability with greater reliance on market forces and enhanced product sector participation in the development process. Makau et al identified three phases in the reforms implementation process that were distinguished by the approach used, level of government commitment, donor government relationship and political reforms. According to Makau et al (2003) in the first phase, 1980-84, an ambitious broad approach was adopted taking upon trade reforms, grain marketing, interest rates, energy and family planning. However little was achieved especially with reversals trade reforms and lack of adequate government commitment in the reform process. The latter dissatisfied the donors and reform process characterized by stop-go pattern in adjustment lending. The second phase in 1985-91, government commitment was described as patchy making the donors to suspend their support in 1991 to pressurize for political reforms and government commitment (Makau et al 2003). It is during this phase that there was shift to sectoral approach to implementation process and reforms were initiated in agriculture Industry financial sector, export development and social sectors. The third phase started with the resumption of aid in 1993, characterized by comprehensive reforms. However the donors dissatisfied with the pace, suspended aid in July 1997 (Makau et al 2003).

2.6 Globalization

The term Globalization has been used by economists since the 1980s although it was used in social sciences in the 1960s, the concepts did not become popular until the latter half of the 1980s and 1990s (Anonymous 2004). Globalization in its literal sense is the process of transformation of local or regional phenomena into global ones. It can be described as the process by which the people of the world are unified into a single society and function together (Anonymous 2004). The process is a combination of economic technological, social cultural and political forces (Anonymous 2004). Globalization is often used to refer to economic Globalization, which involves integration of national economics into the international economy through trade, foreign direct investment, capital flows migration and the spread of technology (Anonymous 2004). According to Johnson et al (2005) Globalization relates not only to contextual factors such as worldwide homogenization of consumer demand but also the adoption of global strategies in which activities are tightly integrated and coordinated on a cross national basis and the whole word is seen as a potential area of operation. According to United Nations development program (2004) there are many different definitions of Globalization but most acknowledge the greater movement of people, goods, capital and ideas due to increased economic integration, which in turn is propelled by increased trade and investment.

There has always been sharing of goods and resources, knowledge and cultures between people and countries, but recent years improved technologies and a reduction of barriers means the speed of exchange is much faster (Anonymous 2004). Globalization provides opportunities and challenges. Bigger markets can make bigger profits which leads to greater wealth for investing in development and reducing poverty in many countries. Weak domestic policies, Institutions and infrastructure and trade barriers can restrict a countries ability to take advantage of the changes (Anonymous 2004). Each country makes decisions and policies that position them to maximize the benefit and minimize the challenges presented by Globalization. Globalization is an extreme complex of many things and the benefits of Globalization depends on a country capacity to respond well by instituting policies that are vital to taking advantage of liberalization.

2.7 Conclusion

Unger (personal communication May 20, 2009) confirms that Globalization has come up with a host of challenges including the current global financial crisis that have seen big multinationals such as General Motors Corporation fall into financial crisis. Unger (2009) says the current financial crisis was hatched by a few arrogant and greedy individuals who have put the whole world into crisis by not following certain fundamentals in financial management. This implies that no organization today can claim to be stable into the unforeseeable future unless its agile adaptive and align itself to changes occurring in the environment (Lee 2004). The impact of Globalization is company specific and changes on a continuous basis depending on decisions that are made by organizations and governments at a global level. Farrell (2004) says that the extent of Globalization of a certain industry depends on the interaction of production, regulatory and organizational factors which capture dramatic revenue growth of a company if well read. The sustainability of different strategies has become shorter and its becoming increasingly difficult for firms to come up with unique competitive advantage.

Porter (2008) noted that awareness of the five industry forces (threat of new entrants, rivalry among existing competitors, threats of substitute products or services, bargain power of suppliers and bargain power of buyers) and their continuous analysis will help a company understand the structure of the industry. This will in turn help the company to stake out a position that is more profitable and less vulnerable to attack. This implies that organizations of today cannot afford to get into comfort zone as they may wake up one day to realize that they are out of the market due to sudden shift of industry factors. Companies should constantly measure and monitor their performance not only against their set standards but against industry standards and best practices. This can be achieved by firms adopting strategic management accounting approach. Arithi (2001) found out that some large manufacturing firms in Nairobi had adopted strategic management accounting. KWAL case study will be a good example to illustrate the impact of all the above challenges in the era of Globalization and possibly single out various responses to that have been successfully applied so far to deal with these challenges.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the steps undertaken in executing the study. It describes the research design as that of a case study, explains the data collection methods and describes how the data was analyzed.

3.2 Research Design

The research was conducted through a case study. This method was helpful in probing and obtaining an in depth understanding of a case such as KWAL that was the subject of the study. This design will be valuable for detailed statistical data analysis.

3.3 Data Collection

Data collection was from primary data and secondary data. Primary data collection was done through an in depth interview conducted with two past and two current directors. Two members of past and current management were interviewed. Questions were issued in advance to help respondent recollect facts or make references where necessary. The above respondents were chosen because of their close relationship with the organization and were believed to have a lot of information on KWAL responsiveness to Globalization.

The researcher also obtained data from secondary sources such as annual reports and accounts, management accounts, market statistics on the wine and spirit market share in Kenya, comparative financial data from industry leader, and business reports that may be provided by management.

3.4 Data analysis

Conceptual and qualitative content analysis was used to analyze the data. Specific strategies applied by Kwal in response to Globalization were reviewed. Ratio analysis and performance trending was carried out on quantitative data and selected financial indicators compared against the past performance to measure the impact of Globalization.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents data analysis & interpretation. The data analyzed is mainly from secondary data and interviews with selected members of the board of directors and top management. The results are presented to highlight the strategies used by KWAL to respond to the challenges of Globalization. Financial data from audited financial statement has been analyzed using various financial ratios and graphs and presented in appendix III to IV.

4.2 Impact of Globalization to KWAL

4.2.1 Direct competition

Before the early nineties KWAL was the sole manufacturer, importer and distributor of wines and spirits in Kenya. This was a highly regulated sector and Government did not license other players. With increased global competition as a result of liberalization of the economy in the early nineties other players started participating in the business such as UDV, wine masters, wines of the world, Nairobi vintners and viva products line eating into the wines and spirits market. There was an influx of imported wines & spirits by individual distributors from different parts of the world such as France, South Africa, Italy and Chile. The increased variety led to increased customer choice as a result of substitute products driving the prices down in a market that was characterized by price competition.

KWAL was also the sole importer of Altar wine that is used for religious purposes mainly by the main stream Churches such as Catholic and the Anglican Churches. KWAL has had a clear understanding with two companies from Cyprus which up to date only sell the Altar wine to KWAL. The competitors have however come up with other sources of Altar wine from other parts of the world, which has been eating into KWAL Altar wine market in Kenya and Eastern Africa. The company has overtime increased its marketing spend to defend its market share leading to reduction in profitability. In some cases, unscrupulous business men made a counterfeit label of KWAL Altar wine and used it to sell their product.

Before 2004, there was no evidence of any formal strategies clearly showing the strategic intent of the company with clear goals and objectives. The strategy was more informal and existed in the mind of the management. With the mushrooming of competitors especially in the early 2000s, KWAL found that a more systematic approach in tackling the challenges in the market was required and it developed it first formal strategy in 2004. In 2007 KWAL developed another five years strategy to be implemented between 2008 and 2012. One of the main strategic objectives was to grow the current market share by regaining what had been lost to competition with clear yearly objectives.

4.2.2 Loss of Major Suppliers

KWAL had a well established network of suppliers of wines and spirits and had exclusivity in the distribution of their brands. KWAL as a state corporation was concerned with job creation by making arrangement with the owners of the brands to bottle their brands locally. The local bottling was more driven by the need to create employment as opposed to the cost of importing finished products versus the cost of local production. The international suppliers had no option other than to abide by the terms that were dictated by KWAL since it was a monopoly. With acceleration of Globalization in Kenya as a result of liberalization in the early nineties, many suppliers of KWAL switched their partnership to competitors where they had a chance to negotiate better terms. The loss of suppliers led to loss of transfer of technology which KWAL used to get from international suppliers at almost no cost in form machine lines for bottling various international products. A good example of technology transfers was the chilling tanks that were installed by Bulmers Woodpecker which was an international company that engaged KWAL in bottling and distribution of their cider based products. Table 4.1 shows some of the international brands that were locally bottled which have been lost to the competitors from 1994 to date. KWAL also lost a number of imported cased goods to competitors as shown in Table 4.2.

Because of influx of imported cased wines and spirits at affordable prices leading to loss of market share, KWAL local production shrank from a high of 891,379 litres per annum in 1992 to 247,089 litres annum in 2002 and from a high of 62% of the total output in 1995 to 7% in 2002 as shown in Table 4.3. This led to reduced market share from a monopoly status of 100% in wine and spirits market to a 12.2% volume share and 21.1% Value share according AC Nielson Statistics of June 2008 (Appendix II)

Table 4.1
Some Brands that were locally bottled lost to competitors between 1994 to 2008

	Brand Name	Brand Type	Supplier	Country of Origin
1	Martin Bianco	Vermouth	Cinzano	Italy
2	Martin Rosso	Vermouth	Cinzano	Italy
3	Martin Dry	Vermouth	Cinzano	Italy
4	Cinzano Vermouth	Vermouth	Cinzano	Italy
5	Freezomint Liquer	Liquer	Cusenier	France
6	Berdolino wines, Soave wines etc	Table Wines	Primio Vine	Italy
7	KWV Wine	Table Wines	KWV	South Africa
8	Various Spirits	Whiskys &Vodkas	Gilbeys Intenational	United Kingdom
9	Blue Danube	Table Wines	Lenz Moser	Austria

Table 4.2
Some Imported Complete and Cased Good lost to competitors between 1994 t0 2008

1	Brand Name	Brand Type	Supplier	Country of Origin
2	Ricard	Aperatiff	PR Afrique	france
3	Pernord	Aperatiff	PR Afrique	france
4	Beefeater Gin	Gin	PR Afrique	france
5	John Jameson	Whisky	PR Afrique	france
6	Martel	Brandy	PR Afrique	france
7	Borzoi	Vodka	PR Afrique	france
8	Stolichnaya	Vodka	PR Afrique	france
9	Dorbonnet Rouge	Aperatiff	PR Afrique	france
10	Borzoi		PR Afrique	france
11	Gordons Dry Gin	Gin	Diageo	United Kingdom
12	Tanquery Gin	Gin	Diageo	United Kingdom
13	Myers	Rum	Diageo	United Kingdom
14	J & B Rare	Whisky	Diageo	United Kingdom
15	John Walker	Whisky	Diageo	United Kingdom
16	VAT 69	Whisky	Diageo	United Kingdom
17	Famous Grouse	Whisky	Highland Distillers	United Kingdom

Note. Due to mergers and Acquisition, the names of companies and countries of origin may have changed over time.

4.2.3 Poor Financial Performance

Competition led to loss of revenue resulting from increased varieties of wines and spirits in the market and loss of high value brands as indicated in Table 4.1 and 4.2. From formation of KWAL in 1969 to 1994, the company had a steady growth in revenue and profitability as indicated in Appendix III to VI. In 1995 KWAL formed a joint venture with UDV and incorporated KLD. The core business of the company was distribution of wines and spirits in Kenya which was hither to done by KWAL. The formation of KLD brought to an end the monopoly of KWAL in distribution and the profits from the business were shared between the two companies. This led to a sharp decline in revenue and profitability and between 1996 to 2002 KWAL revenue stagnated as shown in Appendix III and VI. The decline in profitability was also attributed to the increase in operational cost which rose from margins of 6% to a high of 52% in 2001 as indicated in Appendix V. The stagnation in revenue growth led to the company making operating losses between 1997 and 2006 as indicated in Appendix III. The company however continued to make net profits upto 2002 because of share of profits and dividends received from associated companies as indicated in Appendix III.

KWAL owned 25% of UDV, 49% of KLD and 18.75% of Uchumi chain of supermarkets. In 1999, KLD was dissolved due to disputes between the two partners and in 2001 KWAL sold its investment in UDV to Diageo an international company dealing in Spirits. Diageo acquired 75% majority in UDV and also owned all the brands that were being manufactured or distributed by UDV. Before the acquisition of UDV by Diageo, KWAL together with First Chartered Securities Limited which is a local investment company jointly owned 51% of UDV and the two could control the decisions of the company. With 75% acquisition of UDV by Diageo, and a relationship that had gone sour between the companies as they were the leaders in Wines and Spirits Market, KWAL decided to sell its stake in UDV and concentrate on its own business. Uchumi stopped paying dividends from 2004 and in 2006 the chain of supermarket was put under receivership. The above events marked the end of dividend income and the company made net losses between 2003 to 2005 as shown in Appendix III. In the 2003 Finance bill, the then Minister for Finance included a requirement for payment of all excise duty on raw spirit which used in the manufacturing of various spirits products upfront. The new Government requirement on the payment of duties upfront and loss of dividend income adversely affected the cash flow of the company where the current asset ratio moved from a high of six in 2002 to two in 2005 as shown in Appendix V.

The players in the wines and spirit industry were looking for growth in market size due to stiff competition. This led to parking of spirit in small sachets of about twenty millilitres in the early 2000s. KWAL was not left behind and in 2003 the company invested in sachets packing machine. There was an outcry by social organization on the availability of Alcohol in small quantities that were even affordable by school going children. This forced the Government to come up with a law to regulate the minimum volumes for packing alcohol. In June 2004 finance bill, the Minister for Finance limited the minimum packages of alcoholic products to 200 millilitres which was a big blow to KWAL since it had not recouped the investment it had made in the sachet packing machine. The above challenges led to the inability of the company to pay dividends between 2003 to 2008. KWAL however made a turnaround in financial performance and returned to profitability in 2006. The company continued with a steady increase in revenue growth and has remained profitable since then as shown in Appendix III.

4.2.4 Redundancy of Backward Vertical Integration Strategies Projects

In 1988 KWAL established a pawpaw juice processing factory and engaged farmers to supply it with pawpaws from the Pekera irrigation scheme in Marigat District Rift Valley Province. The pawpaw juice was used in KWAL factory to produce a pawpaw wine called Papaya. In 1992, KWAL established yatta vineyards in Yatta District in Eastern province. The vineyard grows grapes as input to the winery of KWAL. The objective of this two projects were a backward vertical integration strategy to provide the main raw materials for local wines due to import restrictions that were being exercised by the Government before Liberalization. With Liberalization in the early 1990s, import restriction were scrapped off and KWAL could import raw materials from any part of the world at competitive prices. This led to closure of Marigat farm in the early 2000s while Yatta Vineyards has remained technically insolvent since its incorporation in 1999.

Table 4.3 Production Analysis

Financial Year	Total output	Local products output (LTRS)	Local products output %	Contract packaging output (LTRS)	Contract packaging output %	International Product locally bottled output (LTRS)	International Product locally bottled %
1990	1,889,108	793,425	42%	-	0%	1,095,683	58%
1991	1,847,101	868,138	47%	-	0%	978,964	53%
1992	1,937,781	891,379	46%	-	0%	1,046,402	54%
1993	1,739,301	747,899	43%	-	0%	991,402	57%
1994	1,278,347	741,441	58%	-	0%	536,906	42%
1995	1,173,582	727,621	62%	-	0%	445,961	38%
1996	1,305,402	587,431	45%	-	0%	717,971	55%
1997	1,248,440	574,282	46%	-	0%	674,158	54%
1998	1,120,828	419,453	37%	167,526	15%	533,849	48%
1999	1,369,072	602,392	44%	436,522	32%	330,158	24%
2000	2,376,738	285,209	12%	1,588,926	67%	502,603	21%
2001	2,776,569	347,349	13%	1,860,301	67%	568,919	20%
2002	3,596,643	247,089	7%	2,733,449	76%	616,105	17%
2003	4,462,656	442,249	10%	3,346,992	75%	673,415	15%
2004	6,181,776	741,813	12%	4,380,996	71%	1,058,967	17%
2005	3,903,717	443,276	11%	2,746,158	70%	714,283	18%
2006	3,904,452	317,748	8%	2,696,616	69%	890,088	23%
2007	5,255,360	452790	9%	3,628,680	69%	1,173,890	22%
2008	6,368,410	603,498	9%	4,377,852	69%	1,387,059	22%
2009	5,242,346	782,761	15%	2,761,800	53%	1,697,785	32%

4.2.4 Redundancy of Backward Vertical Integration Strategies Projects

In 1988 KWAL established a pawpaw juice processing factory and engaged farmers to supply it with pawpaws from the Pekera irrigation scheme in Marigat District Rift Valley Province. The pawpaw juice was used in KWAL factory to produce a pawpaw wine called Papaya. In 1992, KWAL established yatta vineyards in Yatta District in Eastern province. The vineyard grows grapes as input to the winery of KWAL. The objective of this two projects were a backward vertical integration strategy to provide the main raw materials for local wines due to import restrictions that were being exercised by the Government before Liberalization. With Liberalization in the early 1990s, import restriction were scrapped off and KWAL could import raw materials from any part of the world at competitive prices. This led to closure of Marigat farm in the early 2000s while Yatta Vineyards has remained technically insolvent since its incorporation in 1999.

4.2.5 High Staff Turnover

The company had a fairly stable staff turnover by early nineties. The first retrenchment was carried out in 1994 when KWAL lost the distribution of UDV products reducing its turnover by about 50% in 1995 as shown in Appendix III and VI. The second retrenchment followed in 1999 after the closure of KLD in 1998 and loss of bottling and distribution of KWV products in the same year. The two staff retrenchment created tension and most of the remaining staff questioned the going concern of the company. Some staff joined competitors while others started competing businesses. The high staff turnover led to business stagnation especially between the mid 1990s and the early 2000. There was also loss of institution memory in some areas where company policies and procedures were not properly documented. The high staff turnover led to slow implementation of some of the strategies that were meant to respond to Globalizations challenges that were being faced by the company. Some staff losses also led to loss of crucial suppliers where the former staff joined competition and leveraged on the relationships they had created with suppliers while in KWAL to woe them to their new employers.

4.3 Responsiveness of KWAL to Globalization Challenges

4.3.1 Market Expansion Strategy

KWAL established a Branch in Uganda in 2000 and a fully owned subsidiary in Rwanda in 2003. The branch in Uganda was set as a depot in which KWAL transfers stock for sale in the Ugandan market and to export customers mainly from DRC. The branch was initially faced with management challenges and had not broken even by 2006. This led to temporary closure from 2006 to July 2008 when the branch was re-opened again. The Rwanda subsidiary started off as a duty free shop at the departure terminal of Kigali International Airport in 2003. Later in 2007, the operation was expanded by opening a depot in Kigali to serve the market and export customers from Burundi and DRC. The subsidiary made its first profit in 2006. The two operations have remained strategic to KWAL in consolidating its business and market share in Eastern Africa.

4.3.2 Diversification Strategy

Due to shrinkage of the market share as a result of stiff competition, KWAL took a diversification strategy to increase its revenue base. In 1996, KWAL opened a diplomatic shop at its head office in Nairobi industrial area. The shop would retail high value alcoholic and non alcoholic products to diplomats. The non alcoholic products was purely a non related diversification and it involved selling complimentary and gift items such as cigarettes, Chocolates, Perfumes, souvenirs and other range of products. This provided a good revenue base to KWAL but the shop was later closed in 2006 due to new government regulation that required duty free shops to be at the main entry points of the country.

In 1998 KWAL opened two more duty free shops at Jomo Kenyatta international airport in Nairobi and Moi international airport in Mombasa. Like the duty free shop at the head office, the two shops have been used to retail high premium alcoholic products along with other complimentary and gift items. The two shops are in operations to date and their performance is highly seasonal and dependent on the performance of the tourism industry as the main customers are international travelers.

KWAL had a few of its products in tetra pack packaging which was outsourced from Tetra Pack limited. In 1997, KWAL was forced to acquire the Tetra Bric Aseptic machine that was used for packing products in tetra packs since Tetra Pack Limited stopped the outsourcing packaging line of its business. KWAL took this opportunity not only to pack its own products but also to contract package juice to upcoming businesses selling juices in tetra packs. Table 4.4 shows the output of contract packaging of juice from 1998 to 2009. This line of business had it share of challenges ranging from the high cost of running the machine to threats of obsolescence of the machine as a result of other more modern tetra packaging machines. The threat was as a result of introduction of more superior packaging with a flip top or a screw cap at the top as opposed to the earlier packaging that one had to open by cutting at the corner. The new technology led to loss of significant customers in 2008 such as Delmonte limited and BSKL who bought their own modern machines. There was also an influx of imported juice with superior packaging leading to low demand of products packaged with KWAL technology. KWAL however countered this by coming with its own juice product called Yatta grape juice to maintain the packaging load that would make economic sense. The Juice being a high quality product continued to gain demand despite its old packaging.

4.3.3 Cost Rationalization Strategy

Because of competition KWAL lost a big market share leading to a sharp decline in its revenue and profitability in the mid nineties. The board and management had to employ survival tactics to ensure continued sustainability of the business. In 1994, KWAL carried a retrenchment program through an early voluntary retirement exercise by reducing its workforce in 1994 and 1999. This was a short term strategy for survival as KWAL developed and rolled out long-term sustainable strategies. KWAL employed other cost cutting measures such as recycling of bottles by dedicating a washing machine for second hand bottles. A number of employment benefits such as car ownership schemes, house ownership schemes and long services awards schemes among others were scrapped off.

Table 4.4 Production Analysis Since Inception of Contract Packaging

Financial Year	Total output	Local products output (LTRS)	Local products output %	Contract packaging output (LTRS)	Contract packaging output %	International Product locally bottled output (LTRS)	International Product locally bottled %
1998	1,120,828	419,453	37%	167,526	15%	533,849	48%
1999	1,369,072	602,392	44%	436,522	32%	330,158	24%
2000	2,376,738	285,209	12%	1,588,926	67%	502,603	21%
2001	2,776,569	347,349	13%	1,860,301	67%	568,919	20%
2002	3,596,643	247,089	7%	2,733,449	76%	616,105	17%
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2008	6,368,410	603,498	9%	4,377,852	69%	1,387,059	22%
2009	5,242,346	782,761	15%	2,761,800	53%	1,697,785	32%

4.3.4 Strategic Partnership and Brands Extension Strategy

In 1998 KWAL lost KWV brands from South Africa that were contributing about 50% of its sales. It was in same year that KWAL signed a partnership agreement with Distell a multinational wines and Spirits company with its head office in South Africa. The agreement gave KWAL exclusivity to locally bottle Distell products under license and distribute a host of other imported wines and spirits from Distell. Table 4.5 shows the portfolio of Distell products which KWAL has exclusivity in Kenya. The two companies combined effort in promoting the products in the market which had a phenomenon growth and significantly contributed to KWAL turnaround from the year 2006 to date as the company turned to profitability as shown in Appendix III, V, and VI.

KWAL continued to introduce its own local brands and other international brands in a bid to retain its market share. In 1998 a range of locally produced products such as hunters choice whisky, Kibao Vodka and Simba cane spirits were introduced. The strategy for introducing own products was to enrich the portfolio of existing own brands and reduce the risk of over reliance on brands owned by other companies that could be withdrawn any time. The products reached their highest performance in 2004 where they were selling in high volumes in small sachets before the ban of sachets in 2004. KWAL has over the past twenty years introduced other products ranging from imported wines and spirit and locally produced RTDs. Table 4.6 shows a listing of some of the products that are owned by KWAL.

4.3.5. Enhanced Distribution Strategy

KWAL initially operated from its head quarter in Nairobi and had a depot in Mombasa where most of its imported products would be warehoused immediately they were cleared from the port before they were transported to the head office in Nairobi by rail. KWAL would then send products to various distributors warehouses using its own trucks and hired trucks. The distributors would receive incentives to do more business by way of price discounts based on the volumes of the business transacted. KWAL found out that there was a big market gap in most of the major urban centres in Kenya that were not well covered by the distribution system then. To fill this gap and tap the additional revenue, KWAL opened distribution depots in the mid nineties in Kisumu City and Nakuru Town in the mid 1990s. The mountain region depot in Nyeri town was opened in 2007. The success of this system is not clear as the business remained stagnant between the mid 1990s to early 2000s. and the expenses margins increased from a low of 6% in 1993 to a high of 52% 2005 indicated in Appendix V.

Table 4.5 Distell Products Sold by KWAL Through Strategic Partnership Agreement

	PRODUCT	Brand Type	Sourcing
1	Viceroy	Brandy	Locally Bottled Under License
2	Castle Brand	Aperitif	Locally Bottled Under License
3	Clubman Mint	Aperitif	Locally Bottled Under License
4	Count Pushkin	Vodka	Locally Bottled Under License
5	Amarula cream	Liquer Cream	Imported Cased
6	Cellar Cask Crisp and Dry	Table Wine	Imported Cased
7	Cellar Cask Dry Red	Table Wine	Imported Cased
8	Cellar Cask JHB Red	Table Wine	Imported Cased
9	Cellar Cask JHB White	Table Wine	Imported Cased
10	Chamdor Red	Sparkling Juice	Imported Cased
11	Chamdor White	Sparkling Juice	Imported Cased
12	Chateau V.O	Brandy	Imported Cased
13	Drostdy-Hof Claret	Table Wine	Imported Cased
14	Drostdy-Hof Grand Cru	Table Wine	Imported Cased
15	Drostdy-Hof Late Harvest	Table Wine	Imported Cased
16	Drostdy-Hof Extra Light	Table Wine	Imported Cased
17	Drostdy-Hof Merlot	Table Wine	Imported Cased
18	Drostdy-Hof Stein	Table Wine	Imported Cased
19	Drostdy-Hof Pinotage	Table Wine	Imported Cased
20	Drostdy-Hof Chardonnay	Table Wine	Imported Cased
21	Drostdy-Hof Cabernet	Table Wine	Imported Cased
22	Fleur Du Cap Cabernet Sauvi.	Table Wine	Imported Cased
23	Fleur Du Cap Sauvi.Blanc	Table Wine	Imported Cased
24	Fleur Du Cap Chardonnay	Table Wine	Imported Cased
25	J.C Le Roux Sauv. Blanc	Sparkling Wine	Imported Cased
26	J.C Le Roux Domaine	Sparkling Wine	Imported Cased
27	J.C Fleurette	Sparkling Wine	Imported Cased
28	Klipdrift Brandy Gold	Table Wine	Imported Cased
29	Savanna Dry	RTD - Cider	Imported Cased
30	Savanna Light	RTD - Cider	Imported Cased
31	Scottish Leader	Whisky	Imported Cased
32	Two Oceans Cabernet Merlot	Table Wine	Imported Cased
33	Two Oceans Sauv. Blanc	Table Wine	Imported Cased
34	Van Ryns 10YR	Brandy	Imported Cased
35	Van Ryns 15YR	Brandy	Imported Cased

Table 4.6 KWAL Owned Brands

	Product	Brand Type
1	Hunters Choice	Whisky
2	Kibao	Vodka
3	Simba Cane	Cane Spirit
4	Tropikal Cooler	RTD Cider
5	Tropical Breeze Ice	RTD Cabornated Vodka
6	Yatta Red	Table Wine
7	Yatta White	Table Wine
8	Caprice dry red	Table Wine
9	Caprice dry white	Table Wine
10	Highlife Celebration	Sherry
11	Highlife mature brandy	Brand Type
12	Highlife medium	Sherry
13	Highlife Whisky	Whisky
14	Milano bianco	Vermouth
15	Milano rosso	Vermouth
16	Papaya dry	Table Wine
17	Papaya medium	Table Wine
18	Rocamar red	Table Wine

CHAPTER FIVE

SUMMARY DISCUSSIONS AND CONCLUSION

5.1 Introduction

In this chapter, the findings of the study are discussed. The implications and limitations encountered in the study are highlighted and recommendations and suggestions for further research are made.

5.2 Summary and Discussions

KWAL has employed a number of strategies to deal with Globalization some of which have been very effective while others had short term effects or no effect at all. One of the most effective ways to respond to Globalization especially in a developing country is to align your company with the global players especially those with better comparative advantage. The players in the developing countries should re-evaluate their core business and its chances of success in a globalised economy.

The strategic partnership with Distell managed to turnaround KWAL but its full potential is yet to be realized. The impact of Globalization led to KWAL over diversification into too many operations ranging from manufacturing of own products, Local bottling of others' products under license, very wide product portfolio with over two hundred stock keeping units, contract packaging, distribution, trading and retailing. This led to lack of strategic focus and in ability of the company to align its structure with its diversification strategy. If the effort and the resources that were used for diversification were all geared towards strengthening the strategic relationship with Distell and other suppliers, the company would probably be the undisputed leader of wines and spirits in the Eastern Africa market.

The market expansion into Uganda and Rwanda was a good strategy but KWAL did not align its structure to ensure it reaped maximum benefits out of this expansion. The two operations are too centralized and the members of staff running them have very little autonomy in decision making leading to loss of business opportunities. The operations are also under staffed for fear of overrunning the cost and this led to stagnation in growth of this operations.

The retailing in duty free operations and creation of depots in the country should have been avoided because of the added administrative and control cost. The untapped market in these areas could have been strengthened by appointing strong distributors with adequate incentives for them to serve the market. This approach would have helped the company to avoid the additional control and administrative cost and concentrate with the core business of sourcing and bottling wines and spirits for the Eastern Africa Market.

With Globalizations, the Government should have probably divested from the company to allow effective competition with other private players that came into the market by removing the bureaucracy associated with public institutions. The interest of the Government involvement with the formation of KWAL in 1969 was in pursuant of the then policy of enabling Africans participate in the economy that was dominated by the colonial master. This policy was best applicable in a protected economy and cannot apply in the increasing Globalised economy due to the bureaucracy involved in Government decision making that is no appropriate in a competitive environment.

5.3 Conclusions

In view of the findings discussed in chapter four, it can be concluded that although KWAL responsiveness to Globalizations yielded some positive results, the time taken was quite long and the sustainability of some of the strategies adopted is still questionable. The basis of the strategies adopted seemed not to have been properly documented as there were no formal strategies for reference. The board and the management should continuously be in search of sustainable strategies in an ever changing and turbulent environment. Supply chain partnership and business re-engineering strategies should be adopted to increase the value proposition of its offering to the customers. It can be concluded that KWAL had entrenched itself in the market and had a strong customer base that ensured its survival in the last two decades. This may not be the case into the future and prompt decisions on the way forward should be arrived at very first. The Government has earmarked the company for privatization and this may be a good strategy as the company strategic responsiveness will increase by removing the bureaucracy associated with Government. The privatization if successful should be used by the company to forge alliances with established global players to market their products in Eastern Africa and beyond. Strategies for implementation should be thoroughly scrutinized to avoid experimentation which can be very costly in the long run.

5.4 Limitations of the Study

Although most of the financial data was available for analysis the disclosure requirements have changed overtime and some details like changes in certain expenses like marketing could not be picked from the financials. The management team interviewed did not have enough time to dig into the archives and provide the details. In some areas, the staff turnover was high and there was loss of institutional memory. Data comparison with competitors was also not possible as there was no sharing of data because of the rivalry that exist among them. The data for the 1980s and below was also not readily available for comparison between the monopoly era and Globalised era. The industry competition is very high and characterized with rivalry. As a result, the industry does not share information such as financial data and hence the data for other players in the market was not available which made it impossible to rate KWAL performance against other industry players.

5.5 Suggestion for further Research

There are many areas that can be researched under KWAL. Some of this would include the impact of diversification in a globalised economy, the appropriateness of backward and forward vertical integration strategies in the twenty first century and Strategy formulation and implementation at KWAL.

5.6 Implications for Policy and Practice

Business environment is very critical in determining the success or failure of business. From the research discussions, it’s evident that organizations have to align their business policies and practices to the existing environment for them to be successful. With a volatile business environment, organizations have to be highly flexible in their policies and practices in order to adapt to the changing business environment. In the last twenty years, KWAL has embraced many changes than its first initial twenty years due to changes in environment. This has an implication to all business operating in a global economy to constantly monitor the business environment, identify strategic issues and take immediate actions.

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APPENDICIES

Appendix I:

INTERVIEW GUIDE QUESTIONs

QUESTIONS TO THE BOARD MEMBERS, CEO AND MANAGEMENT

1. Briefly discuss the history of Kenya Wine Agencies Limited and why was the Government involved in the formation of KWAL? Was there any strategic interest?
2. How was the performance of KWAL before increased competition in the spirit and wine market in the early 1990s?
3. With liberalization and improved technology, Globalization has increased. What is the impact of Globalization in the wines and spirit business in Kenya?
4. What would you consider as the Merits and demerits of Globalization in relation to KWAL?
5. What is the average annual size of your industry over the last five years in terms of volumes and value. How much of this is attributable to international trade?
6. How has KWAL strategically aligned itself to counter the negative impact of Globalization and take advantage of the positive impact over the last 20 years? Name specific strategies and their impact to performance.
7. Out of the strategies employed by KWAL which one would you attribute to have had the most positive impact on the challenges of Globalization?
8. Has Management and the board thought of changing the core business in view of Globalization?
9. Has KWAL employed survival strategies such as cost rationalization and staff retrenchment over the last twenty years

10. Kwal is a state corporation as opposed to its competitors in the industry. What is the impact of its legal status in dealing with challenges of Globalization?
11. What are the current strategies in place to ensure continued existence of the business?

QUESTIONS TO SELECTED LONG SERVING DIRECTORS

1. Why was KLD dissolved? Was it a strategic move by the board?
2. Why did the board and the shareholders decided to sell off the UDV shares to Diageo. Was it a strategic move?
3. KWAL having being a monopoly for twenty years had a healthy balance sheet as indicated in the financials. To ensure retention of big suppliers KWAL could have exercised some of the following options?
    a. Sign Long-term partnership agreement with suppliers and renegotiate trading terms.
    b. Give Equity to significant suppliers
    c. Acquire upcoming competitors etc

    What were the main challenges for the board in exercising these options?
4. How often was strategy reviewed in KWAL. Did the board carry out a due diligence of the Impact of Globalization that was brought by the liberalization of the economy in the 1990s. Was there a strategic review?
5. Why did the board continued with Yatta Vineyards Operations despite the redundancy of the project?
6. As a response to challenges of Globalization, KWAL employed the following strategies:
    a. Market Expansion into Uganda and Rwanda in 2000 and 2003 respectively.
    b. Diversification into retail in 1996.
    c. Contract Packaging.
    d. Opening of Distribution Depots.
    e. Partnership Agreement with Distell Corporation in 1998.

f. Cost rationalization in 1994 and 1999.

g. Production of Local Spirits Brands (Hunters Choice, Kibao and Simba Cane) 1998.

What was the reasoning behind each of the above strategies?

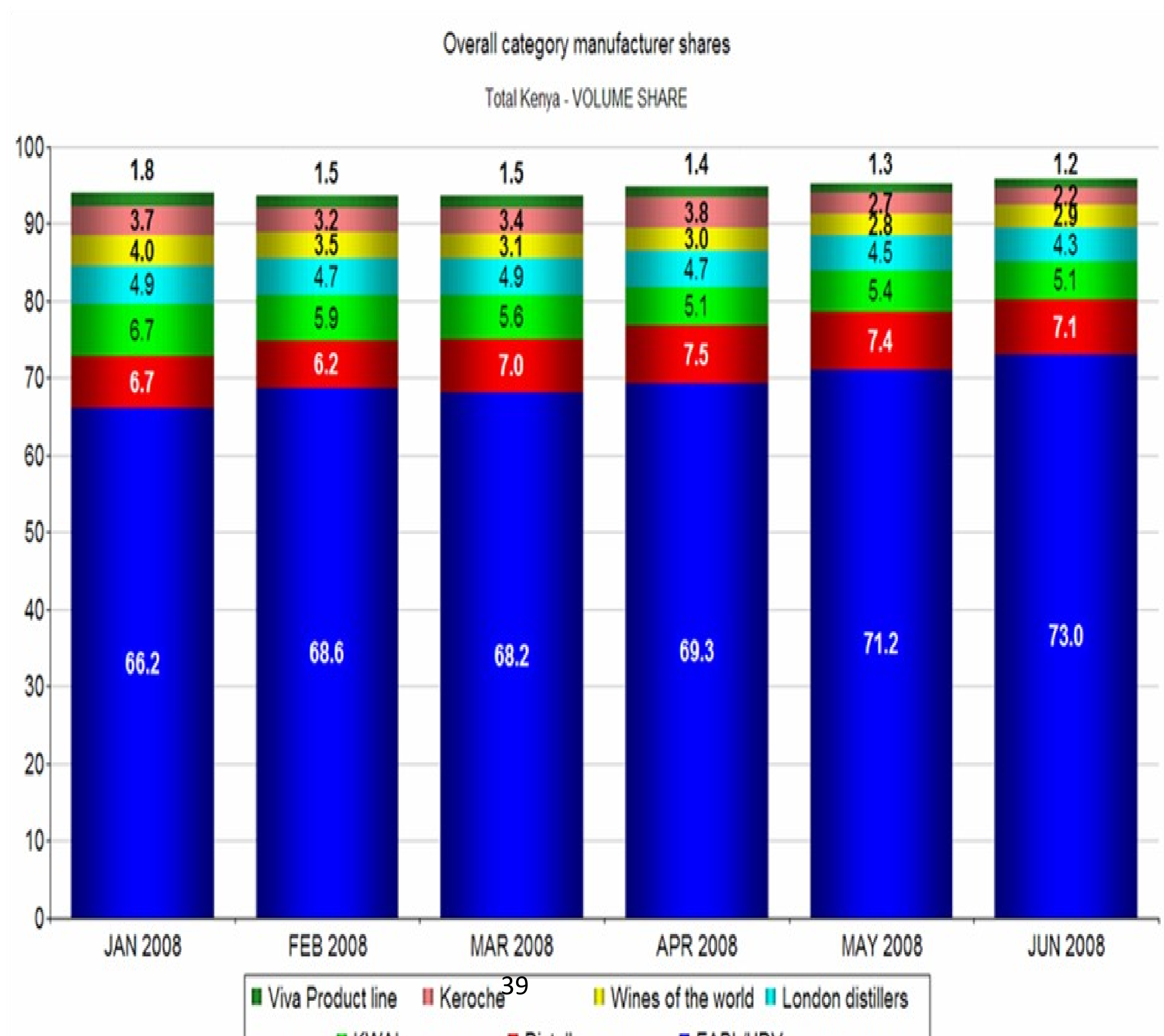
7. It's is now public information that the Government has started the Privatization process of KWAL. Do you think that such a move would enhance KWAL responsiveness to Globalization,

8. How would you rate KWAL responsiveness to challenges of Globalization in the last twenty years? Is Globalization still a major threat to KWAL continued successful existence. Discuss?

APPENDIX II: AC Nielson Market Statistics

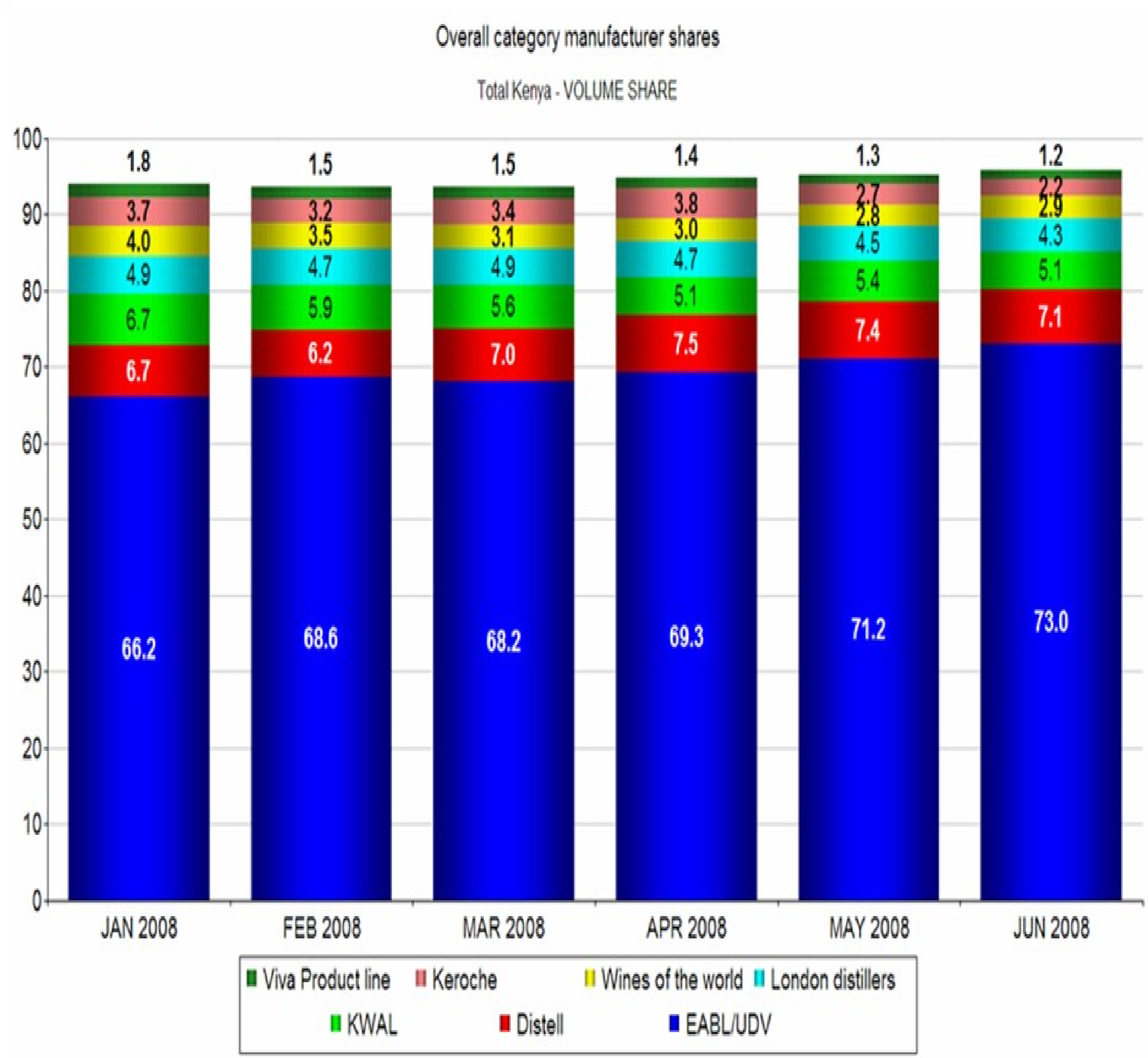
Category - Manufacturers

Total Kenya - VOLUME SHARE| Period Ended JUN 2008 - Share of: TOTAL ALCOHOLIC DRINKS-SPIRITS



Category - Manufacturers

Total Kenya - VOLUME SHARE| Period Ended JUN 2008 - Share of: TOTAL ALCOHOLIC DRINKS-SPIRITS



APPENDIX II: AC Nielson Market

Statistics

Category - Manufacturers

Total Kenya - VALUE SHARE | Period Ended JUN 2008 - Share of: TOTAL ALCOHOLIC DRINKS-SPIRITS