# COMPETITIVE STRATEGIES ADOPTED BY FIRMS IN BEER BREWING INDUSTRY IN KENYA

**BY**

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**NOVEMBER, 2012**

## DECLARATION

I hereby certify this research project as my original work and has not been presented for examination in any other institution of higher learning.

**Sign: ……………………………………… Date: ………………………………………**

**Paul Mugwe**

**D61/73170/2009**

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

**Sign: …………………………...…………….Date: ……………………………….**

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# DEDICATION

This study is dedicated to my loving family, my wife and our beloved children, for their understanding support, encouragement, perseverance and patience during the entire period of my study and continued prayers towards successful completion of this course.

## ACKNOWLEDGEMENT

I wish to express my sincere gratitude to all persons who contributed in one way or another to my achievement in this course. First in recognition is my Supervisor, Prof Martin Ogutu, for his guidance without which I would not have done this proposal. I am also grateful to University of Nairobi for availing an opportunity where I could study as I work to further my studies.

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## ABSTRACT

The firms in Kenyan beer industry compete in marketing various brands of locally produced beer. Beer market growth is flat due to economic hardships that have continued to affect beer industry, coupled with high taxes, stiff competition from other beverage sub sectors and low consumer spending. There is no known study in Kenya which has ever been done on the Competitive strategies adopted by beer brewing firms in Kenya. This study sought to fill this gap in knowledge by answering the question: what are the competitive challenges facing beer brewing firms? The proposed study adopted a cross sectional survey research design. The target population for the study was the managerial staff working in marketing departments in beer firms. This study collected primary data using semi-structured questionnaires. The closed ended questions were used to collect quantitative data while the open ended will used to collect the qualitative data. The filed questionnaires was checked for completeness, edited and coded to facilitate entry into a computer for analysis. The entered data was analyzed using descriptive statistics such as the mean and standard deviation. This was achieved by the use of a computer software tool to generate quantitative reports through tabulations, percentages, and measures of central tendency. The study found that heavy distributional costs, increasing advertising cost, many brands in the market, heavy costs of production, low market penetration, old machinery of production, low profits, fear of change, fact that their brands are unknown, lowering of prices by other firms, heavy legislation, low market share, low sales were challenges that beer companies were facing in marketing their products. The study also found that the beer firms were using cost leadership, offensive strategies, defensive strategies and collusive strategies as competitive strategies to a great extent.

# CHAPTER ONE

# INTRODUCTION

This chapter presents a proposed survey of strategic management practices to cope with competition among firms in the brewing industry in Kenya. The chapter entails a back ground discussion of strategic management and competitive advantage, statement of the problem, objectives, research questions and importance of the study.

## 1.1 Background of the Study

The evolution of strategic thinking and the move from strategic planning to more of an emphasis on strategic management has contributed to the heterogeneous nature of strategic thought. For example, the strategy process has been criticised by researchers such as Stacey (2003), in that rational analysis and thinking tends to dominate the process at the expense of creativity and innovation. The rational approach to strategy is based on implicit assumptions concerning predictability, measurability and control in business. Although the relevant literature shows a continuing rift between rational and generative or more expansive strategic planning, it is recognised that elements of each approach are present in many organizations strategic processes and that each such element has an important role to play. Thus, although rational planning is sometimes seen as narrow and inward looking, it has a place in the design and implementation of strategy (David Pollard & Sabine Hotho 2006).

The external business environment and industry structures are prone to a high degree of change. Globalisation, demographic changes, changes in social structure and economic-related activities has changed dramatically in the past decade and this level of change is set to continue. Added to these trends are the problems associated with producing or delivering services into an increasingly complex marketplace (David Pollard & Sabine Hotho 2006). Such notions of accelerating change and increasing complexity have resulted in increasingly skeptical comment on the appropriateness of the rational approach to strategy (Stacey 2003). It is often argued that in the face of increasing organisational dynamics and complexities, the rational approach is limiting as it remains more focused on the present and past successes whereas, due to constant changes being experienced in the business environment, what has succeeded in the past and what succeeds at the present may not be appropriate for the future.

Miller (1998) argues that a general strategic management perspective requires that all risk factors exposing the firm be considered, such as, competition, sourcing, customers, demand conditions, etc. The risk management perspective should be extended well beyond a focus on foreign exchange and other price risks in the financial markets. Furthermore, it can be important to improve risk management capabilities relating to firm specific strategic exposures because many stakeholders are unable to diversify investments that are geared specifically to cater to the firm, e.g., buyer and supplier relationships, business partnerships, management and employment contracts, etc. (Miller, 1998).

Since competitive exposures often require strategic responses that are unique to the firm there is a limit to how far traded financial derivatives can accomplish this task. Financial derivatives exist for many fairly standardized and hence tradable asset classes, but do not extend to firm specific competitive factors including environmental contingencies in technology, sourcing, distribution, etc. To deal with these risk factors, a firm may try to invest in the creation of real options that can enhance the firm's ability to respond to competitive risk exposures. Hence, strategic risk management can be extended to include a real options perspective where firms are able to develop opportunities and claims on the future that can be evaluated based of assumptions about the underlying risk factors (Leiblein, 2003).

### 1.1.1 Competitive Sstrategies

A competitive strategy, from a business level perspective, is the achievement of competitive advantage by a business unit in its particular market (Johnson, Scholes & Wittington, 2006). Sidorowicz (2007) views competitive strategies as more skill-based and involving strategic thinking, innovation, execution, critical thinking, positioning and the art of warfare. MacMillan (1983) defined strategic initiative as the ability to capture control of strategic behaviour in the industries in which a firm competes. Strategy is about ensuring the survival and prosperity of a firm (Grant, 2005) by implementing strategies to fulfill stakeholder expectations in an uncertain future. Firms that engage in strategic planning and have appropriately designed and applied competitive strategies tend to have higher performance than those that do not. Competitive strategies can lead to high organisational performance, customer satisfaction, and increased competitiveness in the face of other rival businesses

These strategies are; Cost Leadership strategy where a company aims to out-price its competitors by reducing overheads or the fixed costs associated with manufacture and distribution. It requires a focus on the efficiency of production lines and economies of scale. Differentiation strategy is employed where unique attributes of a product or service is highlighted relative to similar alternatives presented by the competition. It allows a higher price to be charged or a greater ability to command customer loyalty market. Offensive strategies involve strategic moves that improve the firm's position relative to that of rival firms in the industry. Successful offensive strategy are almost always a source of a competitive advantage because they are moves intended to yield a cost leadership position, differentiation advantage, or provide the best value product/service to industry consumers (Grant, 2005).

Defensive strategies are those moves that reduce the ability of rival firm strategies to threaten the firm's competitive strength or organizational resources. Their intended purpose is to defend an industry position, protect competitive resources from imitation, and sustain an existing advantage by lowering the risk and weakening the impact of rival firm offensive attacks. Collusive strategies involve collaborative efforts that tamper with the industry balance of supply and demand. Price/output collusion occurs when rival firms reduce the supply of an output below its competitive level in order to raise price above its competitive level and earn a greater than economic return. Because this strategy is illegal tacit forms are more common than explicit forms. The industry structure can influence the perception that tacit collusion is non-threatening and facilitate its use by rival firms (Grant, 2005).

Strategic alliances are cooperative arrangements of rival firms that don't involve the reduction of industry output to control prices. They are perceived to be non-threatening when performance improvements arises across participating firms that wouldn't be possible without the cooperative efforts of those involved. They enable rival firms 1) to manage risks and share costs when the economies of scale and learning are lacking, 2) facilitate low cost entry into new markets, industries, and industry segments by rival firms that individually lack the required products, capabilities, and resources, and 3) provide rival firms with strategic flexibility and a point of entry without incurring the cost of full-scale under conditions of high uncertainty (Grant, 2005).

### 1.1.2 Beer Brewing Industry in Kenya

Beer industry in Kenya dates back to 1922 when two brothers from England, George and Charles Hurst, started brewing beer in Kenya (Evelyn and Margaret, 2005). The two formally incorporated their business as a private company under the name of Kenya Breweries Ltd. In 1929 the first malted barley beer was brewed and the first batch delivered to New Stanley Hotel where it was opened with mixed reaction. In 1930, the first lager beer was brewed and released into the market. By 1938 the company was recognised for its beer after it won the first brewing award in an international competition. Bottled beer consumption was exclusive for whites in postcolonial era until 1947 when Africans were allowed to drink formal sector beer. Kenya Breweries Ltd became a public limited company in 1934, after which it incorporated Tanganyika Breweries and changed its name to East Africa Breweries Ltd making the first move into the East African market. The company became a holding company after merging with beer makers Allsopps EA Ltd in 1962 and Kenya

Breweries Ltd was re-established as a major partner in Nairobi and Mombasa. In 1964 it acquired equity interest in Tanzania's Kilimanjaro Brewery and a year later, Guinness East

Other subsidiaries include, Kenya Malting Ltd. solely for barley farming and malt processing, and Central Glass Ltd, which dominates local glass packaging market and exports to Ethiopia, Rwanda D.R Congo and Seychelles.

Kenya is self-sufficient in beer and barley and has remarkably invested in all the East African countries commanding the highest market share within the region. High excise duties charged on beer makes the sub-sector one of the main revenue earners for the government. EABL is currently one of the highest corporate taxpayers (Evelyn and Margaret, 2005).

Among key brands of beer available in the Kenyan market are Tusker Lager, Pilsner Lager, Tusker Export, Tusker Malt, Pilsner Ice, Pilsner Ice Light, Allsopps, White Cap, Citizen, and Guinness Stout.

Kenyan-owned Keroche Industries launched its operations in 2008 with hopes to tap a spring of consumer loyalty among a growing middle class in east Africa's largest economy. Keroche Industries invested one billion shillings (about 12.5 million U.S. dollars), funded by a loan from Barclays Bank, in its beer plant in Naivasha, about 90 kilometres northwest of Nairobi and has a 40,000 bottle-per-day capacity compared with EABL's 176,000 bottle-per-hour capacity at its Nairobi plant. Keroche has brands such as Summit Lager and Summit Malt brands which are sold using existing distribution networks. At the time of its launch, Keroche's Managing Director Tabitha Karanja said she hoped to snare a 25-30 percent market share in five years. EABL holds around 50 percent of the market with the rest dominated by illicit home-made brews, often laced with industrial chemicals. Castle Breweries, a SABMiller subsidiary, closed its Kenyan operation after four years in 2002, citing high import duties as a sign of local hostility.

Apart from Keroche, EABL also has to contend with competition from the Kenya Wine Agencies Ltd (KWAL) whose line of products, wines and spirits commands a strong market share. Viceroy, a brandy marketed by KWAL has been giving EABL's Richot a run for its money and is preferred by many brandy drinkers in the Kenyan market. A public listed company, EABL has been trading at an average of KES 225 at the Nairobi Stock Exchange.

Heineken ventured in Kenya in the year 2005. The Dutch brewer has entered into a joint venture with Kenya's East African Breweries Limited (EABL), making the Kenyan company Heineken's sole importer in Kenya and Uganda. This is the second premium beer launched by KBL after White Cap Light, a low carb and alcohol beer, targeted at female executives. Maxam, the distributors of Heineken, are a family business and have invested some KES20m in building a distribution infrastructure for Heineken, while marketing has taken up KES25m.

The Sierra Brewery which has a range of beers including Sierra Amber, Sierra Blonde and Sierra Stout, may not yet be eating into the top end market segment of EABL's products, but it introduces the concept of a high-end premium product. Sierra is said to have cost slightly less than KES500m to set up, and the company does not have an aggressive marketing strategy and is mainly sold in Nairobi and Mombasa and then, mainly in supermarkets and not bars.

## 1.2 Research Problem

Competition is the interaction of individuals who share a limited environment and it includes both co-operation and rivalry (Porter, 1985). Stigler (2008) described competition in business is the allocating productive resources kin the business to their most highly-valued uses and encouraging efficiency. Firm needs strategies that can give the competitive advantage over their competitors. A competitive strategy, from a business level perspective, is the achievement of competitive advantage by a business unit in its particular market (Johnson, Scholes & Wittington, 2006). Schuler and Jackson (1987) classified competitive strategies into three types: cost reduction, innovation and quality-enhancement. Competitive strategies involve a more skill-based strategic thinking, innovation, execution, critical thinking, positioning and the art of warfare (Sidorowicz 2007).

The firms in Kenyan beer industry compete in marketing various brands of locally produced beer. Beer market growth is flat in all the three states due to economic hardships that have continued to affect beer industry, coupled with high taxes, stiff competition from other beverage sub sectors and low consumer spending (Evelyn & Margaret, 2005). The beer and barley sub-sector is mainly dominated by EABL. EABL holds around 50 percent of the market. Other firms in the beer market are Keroche Industries whose target was to dominate a 25-30 percent market by the year 2010, Kenya Wine Agencies Ltd (KWAL), Heineken which ventured in Kenya in the year 2005 through partnership with EABL and Maxam as its distributor and the Sierra Brewery who introduced the concept of a high-end premium product.

Studies on managerial strategies adopted in response to competition have been conducted in Kenya. These studies include, competitive strategies applied by cement manufacturing firms in Kenya by Obiero (2008), intensive growth strategies adopted by Total Kenya Limited in response to competition in the oil industry in Kenya by Midwa (2008), competitive strategies adopted by LPG marketers in Kenya to cope with competition by

Njoroge, (2006) and strategic responses of petroleum firms in Kenya to challenges of increased competition in the industry by Chepkwony, (2001). Other studies in Kenya were done by Bore (2007), Kaveke (2007) and Marete, (2007). There is no known study in Kenya which has ever been done on the Competitive strategies adopted by beer brewing firms in Kenya. This study sought to fill this gap in knowledge by answering the question:  what are the competitive challenges facing beer brewing firms? what are the competitive strategies adopted by firms in the brewing industry in Kenya to cope with challenges of competition?

## 1.3 Research Objectives

The study sought to establish the competitive strategies applied by firms in beer brewing industry in Kenya to cope with challenges of competition.

## 1.4 Value of the Study

The findings would useful to the management of the beer brewing firms in Kenya. Managers of firms in the brewing industry would use the study findings as a basis of formulation of policies on areas that needs implementation of alternative strategies to enhance their competitive advantage.

Investors would get helpful information which they can use to make their investment decisions. The findings of the study provide valuable information on strategic management practices to cope with competition in Kenyan market. Existing international brewing firms in Kenyan market and prospective investors would therefore use the findings to formulate marketing strategies for their investments in Kenya.

The study findings would greatly contribute to the existing body of knowledge on strategic management which future researchers and academicians will use as a reference in their studies.

The marketing firms would benefit from the study as the study findings would provide useful information for decision making on the strategies to be adopted in marketing products and how to cope with the challenges of competition in the marketing process. This would be helpful to the marketers in designing the best measures and ways in marketing beer products in Kenya with a view of achieving profit.

The result of the study would assist the government of Kenya in formulating policies that assist firms in the in the brewing industry to improve their competitive advantage.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

This chapter presents review of theoretical and empirical literature related to strategic management practices and competition. The chapter is structured into the following subsections: concept of strategy, competition, Porter’s five industry forces and competitive strategy.

## 2.2 Concept of Strategy

Andrews (1980) defined corporate strategy as the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and noneconomic contribution it intends to make to its shareholders, employees, customers, and communities.

Steiner (1979) noted that strategy entered the management literature as a way of referring to what one did to counter a competitor’s actual or predicted moves. Steiner also points out in his notes that there is very little agreement as to the meaning of strategy in the business world. Mintzberg (1994) pointed out that people use strategy in several different ways, the most common being: a) Strategy is a plan, a "how," a means of getting from here to there b) Strategy is a pattern in actions over time; for example, a company that regularly markets very expensive products is using a "high end" strategy c) Strategy is position; that is, it reflects decisions to offer particular products or services in particular markets and d) Strategy is perspective, that is, vision and direction. Mintzberg argued that strategy emerges over time as intentions collide with and accommodate a changing reality.

In a more recent study, Johnson and Scholes (2003) defined strategy as the direction and scope of the organization over the long term that enables an organization utilize its resources effectively within a changing environment and to fulfill stakeholder's expectations. Pearce and Robinson (2001) stated that strategy results in future oriented plans interacting with the competitive environment to achieve the company's objectives.

### 2.2 Concept of ccompetition among industries

Competition is generally considered a positive force in most industries; it is supposed to have a positive impact on an industry's efficiency, quality of provision, innovation and international competitiveness. Competition is basic to a properly functioning market economy. Companies are economic agents and, theoretically, their decisions are made according to competitive factors, but companies are also actors in society so their activities have an impact on environmental and social conditions. Also, society may require them to comply, to a certain extent, with prevailing norms and values which, according to Billaudot (2008), are both facilitative and restrictive.

The notion of competition is central to business theory, but its meaning and the ways in which it is perceived to work and contribute to development, differ widely among theorists, policy-makers, bureaucrats and business people. Indeed the history of economic thought provides some deeply contrasting views about the meaning of competition. Amongst them, the concept of perfect competition has survived as the standard model for analysis and has had a profound influence on policy-making concerned with the regulation of competition. Purely competitive markets are used as the benchmark to evaluate market performance. It is generally believed that market structure influences the behavior and performance of agents with in the market. Structure influences conduct which, in turn affects performance. Yet the notion of this form of competition is very different to the concept envisaged by classical economists such as Adam Smith (McNulty 1967). When Adam Smith was writing in 1776, the concept of competition was familiar, and was formulated in the context of independent rivalry between two or more persons. Viewed in this way competition acts as a force that would, in the long run, eliminate excessive profits and unsatisfied demand.

**2.3 Porters Five Industry Forces**

The model originated from Michael E. Porter's 1980 book "Competitive Strategy: Techniques for Analyzing Industries and Competitors." Since then, it has become a frequently used tool for analyzing a company's industry structure and its corporate strategy. In his book, Porter identified five competitive forces that shape every single industry and market. These forces help us to analyze everything from the intensity of competition to the profitability and attractiveness of an industry. Porter's five competitive forces are discussed below:

Threat of New Entrants: The easier it is for new companies to enter the industry, the more cutthroat competition there will be. Factors that can limit the threat of new entrants are known as barriers to entry. Power of Suppliers: This is how much pressure suppliers can place on a business. If one supplier has a large enough impact to affect a company's margins and volumes, then it holds substantial power.

Power of Buyers: This is how much pressure customers can place on a business. If one customer has a large enough impact to affect a company's margins and volumes, then the customer hold substantial power. Threat of Substitutes: This relates to the likelihood that someone will switch to a competitive product or service. If the cost of switching is low, then this poses a serious threat. Competitive Rivalry: This describes the intensity of competition between existing firms in an industry. Highly competitive industries generally earn low returns because the cost of competition is high (Porter, 1980).

### 2.4 Strategies for Key Advantages

Development of a marketing orientation, difficult thought this can be in many organizations, is only one side of the coin in improving the marketing effectiveness of an organization. Marketing strategy specifies a target market and a related marketing mix (McCarthy & Perreault 1993, p. G7). Marketing strategy requires a definition of the market domain in which the company will compete and statement of how utility and value will be created for customers through product and service offerings. Recognizing customer needs and filling them better than competitors is the core of successful marketing strategy (Urban & Star 1991, p. 5). The company's marketing strategies were as follows.

#### 2.4.1 Product Line Strategy

A product line is a group of products that are closely related because they perform a similar function, are sold to the same customer groups, are marketed through the same channels, or fall within given price range. Product line managers need to know the sales and profits of each item in their line in order to determine which items to build, maintain, harvest, or divest. They also need to understand each product's market profile (Kotler

1997, pp. 436-37). This strategy was used by the Carlsberg Brewery Company. The company produced new beers to be in completed amounts for every segment for the purpose of: (1) Selling for competition, (2) Scrambling for market share and insertion into the marketing space, (3) products to serve the demand for Singha Draft beer with a mild taste to attract customers who like the smooth taste.

### 2.4.2 Media Strategy

Advertising can be used to build up a long-term image for a product (Kotler 1997, p. 625). Advertising was emphasized by a Thai beer brewing company as a key factor in promotion and in stressing on value, identity of art, culture and tradition, sports, and several years in the past that advertising of Singha beer was outstanding, standardized, and worthy in art and culture as well as providing useful knowledge. From the concept of bringing Thai art and culture in combination with advertising of Singha beer, it made the company's undertaking able to stand fast and steadily. Conducting the development of advertising rapidly throughout the time while stressing on advertising work which was concerned with new generations and youths, was regarded with extreme pride that the company was able to properly combine between old and new and to be useful to Thai societies both in the past and the present.

Advertising of beer can be done via all kinds of media ranging from radio, television, motion-pictures, magazines, newspapers, and other media in order to approach receivers and consumers widely and fruitfully. The advertising of beer is considered to be extremely successful whether it is a promotion or a conservation of any culture as it is visible to the eye.

### 2.4.3 Trade Strategy

Trade promotion can persuade the retailer or wholesaler to carry more units than the normal amount. The company offers volume allowances to get the trade to carry more in their warehouse and stores. This was used by Carlsberg Brewery Company .The company believed that the trade will work harder when they load the company's product (Kotler 1997, p. 667). To increase sales volume, the company used trade strategies and seller incentives and arranged for the promotion of Singha agents countrywide in the occasion of its 60thyear (in 1993). The purpose was to stimulate agents to be enthusiastic, to accelerate the release of beers for distribution as much as possible, and to select agents who achieved targeted sales volume. The sales volume of each syndicate was not less than 100 million baht. The syndicate and the president of the Singha traders' syndicate who were outstanding in each part with the total amount of 38 persons were selected for visual study and for visiting the October Festival in Munich, Germany, September 22 – 29, 1993 for the first time and this project would continue to be practiced.

### 2.4.4 Consumer Incentive Strategy

Carlsberg Brewery Company used successfully the strategy of creative incentives to the consumers. Programs related to casting lots which were under bottle caps of Singha beer and various company's products were held several times, sports marketing was promoted for public participation in social activities with massive number of people. Being the sponsor of a country road circuit fair (annual racing fair), making the arrangements for marathon relay racing or "Green relay marathon" and joining in the arrangement of Singha Draft festivals with shops in the end of every year and so forth were other promotional activities.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter sets out various stages and phases that was followed in completing the study. The following subsections are included; research design, target population, sampling design, data collection instruments, data collection procedures and finally data analysis.

## 3.2 Research Design

The proposed study adopted a cross sectional survey research design. This method involves, asking participants questions on how they feel, what their views are, and what they have experienced. In order to realize the objectives of the proposed study, an expansive perspective of strategic management practices to cope with competition among firms in the brewing industry in Kenya is needed. Therefore a survey design, which provides more detailed knowledge about a particular phenomenon, is more appropriate as it provides the ability of coverage of breadth as opposed to a case study.

Mugenda and Mugenda (2003) described population as, the entire group of individuals or items under consideration in any field of inquiry and have a common attribute. The target population for the study was the managerial staff working in marketing departments in beer firms. A sample is a set of entities drawn from a population with the aim of estimating characteristic of the population (Siegel, 2003). Sampling size is the number or size of items, objects or individual selected for research to represent the population as a whole. In this regards, the researcher targeted a sample size of 100 managerial staff working in marketing departments in beer firms.

### 3.3 Data Collection

This study sought to collect primary data. This is data which is collected for the very first time and has not been used anywhere else. This study collected both quantitative and qualitative data from the respondents. To achieve this objective the study employed the questionnaire method to collect primary data. The semi-structured questionnaire was consisting of both closed and open-ended questions. The closed ended questions were used to collect quantitative data while the open ended will used to collect the qualitative data.

To facilitate the process of data collection, the study used a research assistant to assist in collecting the data. The questionnaires were administered by hand-delivery method to enhance response rate. Others were emailed to the senior managers depending on the accessibility and time available. The data was then consolidated, packed for analysis.

### 3.4 Data Analysis

The filed questionnaires was checked for completeness, edited and coded to facilitate entry into a computer for analysis. The entered data was analysed using descriptive statistics such as the mean and standard deviation.  This was achieved by the use of a computer software tool to generate quantitative reports through tabulations, percentages, and measures of central tendency. Quantitative data was presented in form of tables, bar graphs and pie chart, while explanation to the same was presented in prose form.

Qualitative data analysis involved collating, consolidating and summarizing the responses from the respondents into meaningful paragraphs which was objectively arranged so as to facilitate making of inferences, conclusion making and drawing of recommendations from the study findings.

# CHAPTER FOUR

# DATA ANALYSIS, FINDINGS AND DISCUSSIONS

## 4.1 Introduction

This chapter presents the data that was found on an investigation to establish the competitive strategies in beer brewing industries in Kenya cope with challenges of competition. What are the competitive challenges facing beer brewing firms? What are the competitive strategies adopted by firms in the brewing industry in Kenya to cope with challenges of competition?

A total of 100 questionnaires were administered to the managerial staff working in marketing departments of the bear firms. However, only 92 questionnaires were returned duly filled-in by the respondents. This makes a response rate of 92%. This response rate was excellent and representative and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.

This commendable response rate was made possible after the researcher personally administered the questionnaire and made further visits to remind the respondents to fill-in and return the questionnaires.

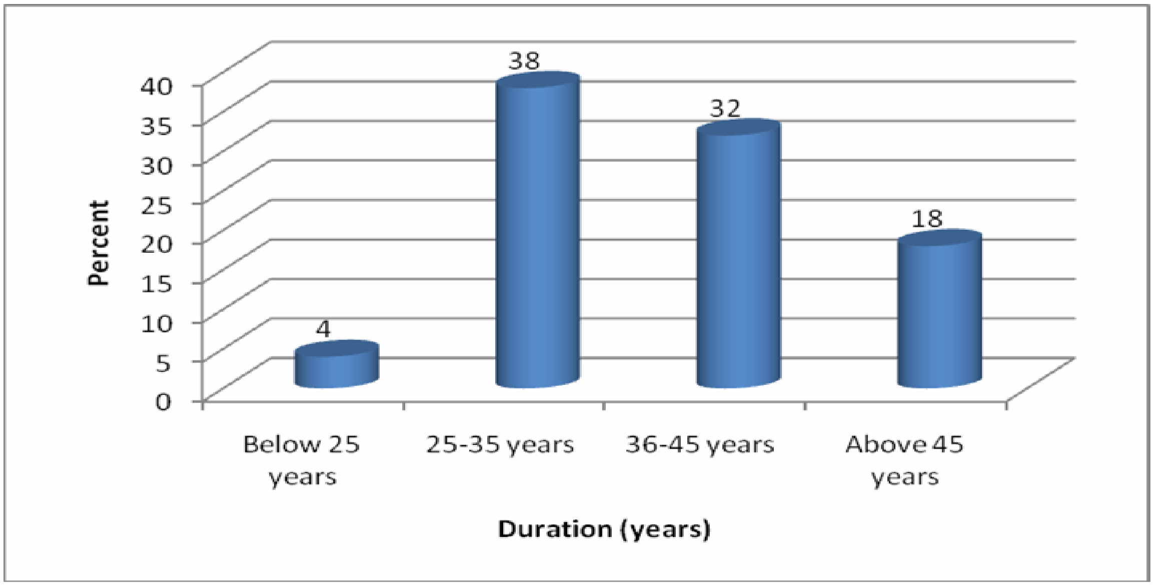
## 4.2 General Information

The general information in this study comprises of the duration of time the respondents companies had been in operation, the form of ownership of the brewing company, the various brands produced by the company, form of management the company hold and whether the company is public or private.

### 4.2.1 Duration of time in operation

The researcher requested the respondents to indicate the duration of time their company had been in operation. The results are shown in figure 4.1.

**Figure 4. 1: Duration of time in operation**

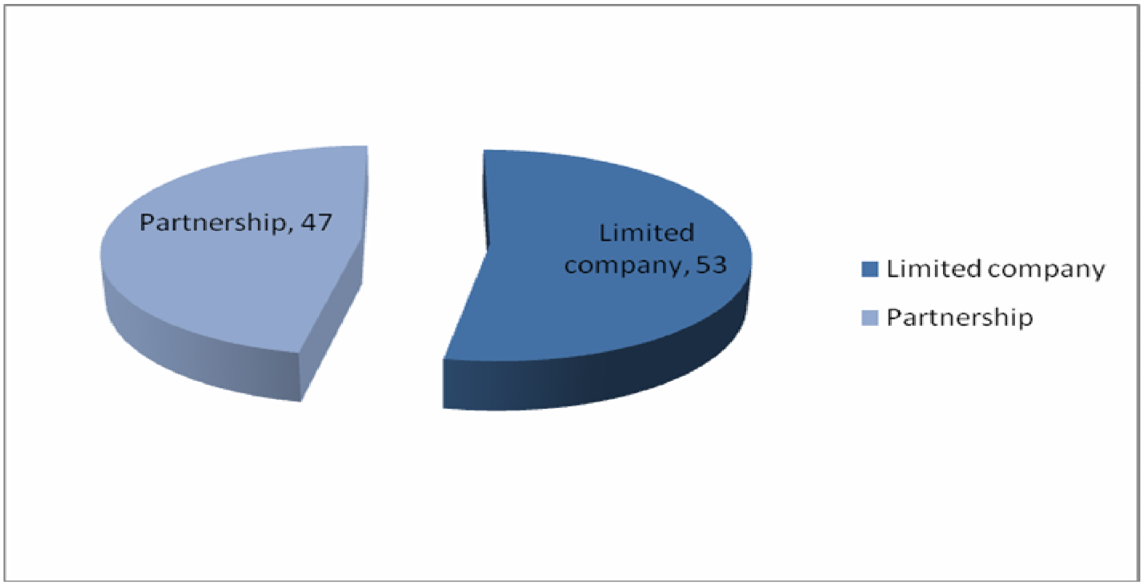



According to the findings, 38% of the respondents indicated that their companies had been in operation for between 25 and 35 years, 32% indicated that their companies had been in operation for between 36 and 35 years, 18% indicated that their companies had been in operation for above 45 years and $% indicated that they had been in operation for below 25 years. These findings clearly show that majority of the respondents companies had been in operation for between 25 and 35 years.

### 4.2.2 Form of ownership of the brewing companies

The researcher also requested the respondents to indicate the form of ownership of their brewing companies. The results are shown in figure 4.2.

**Figure 4. 2: Form of ownership of the brewing companies**

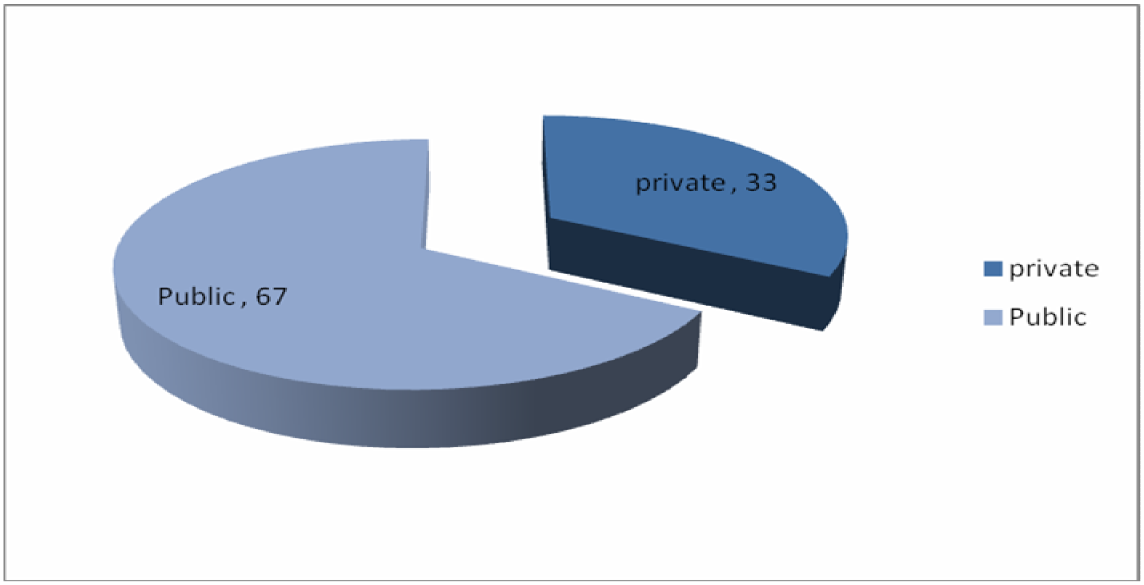



According to the findings, 53% of the respondents indicated that the form of ownership of their companies was limited company. The rest of the respondents (47%) indicated that the form of ownership of their companies was partnership. This clearly shows most of the bear companies in this study were limited companies.

### 4.2.3 Company ownership

The researcher also requested the respondents to indicate whether their companies were public or private.

**Figure 4. 3: Company ownership**

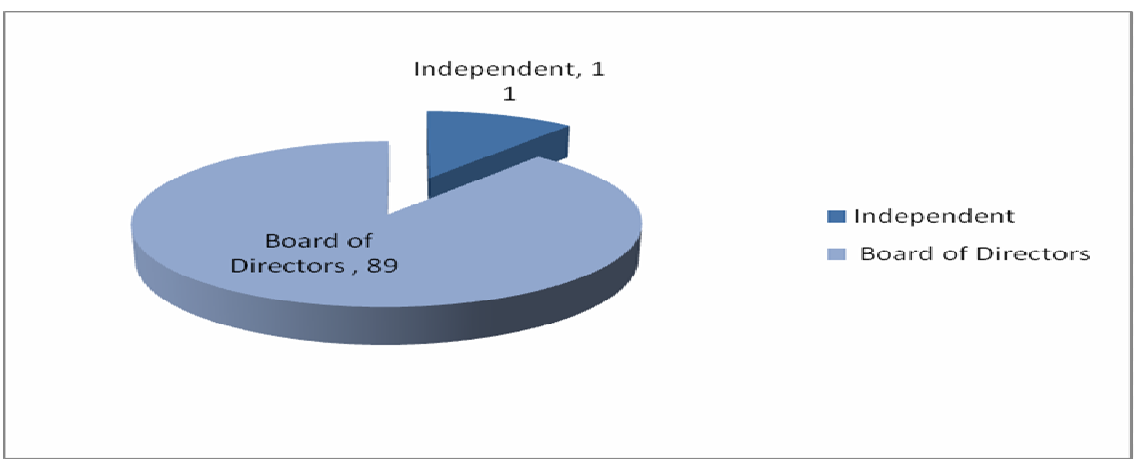



According to the findings as shown by figure 4.3 above, 67% of the respondents indicated that their companies were public companies while 33% indicated that their companies were private companies. This shows that majority of the beer companies in this study were public companies.

### 4.2.4 Form of management

The study also sought to establish the form of management in the beer companies in this study. The results are shown in figure 4.4.

**Figure 4. 4: Form of management**

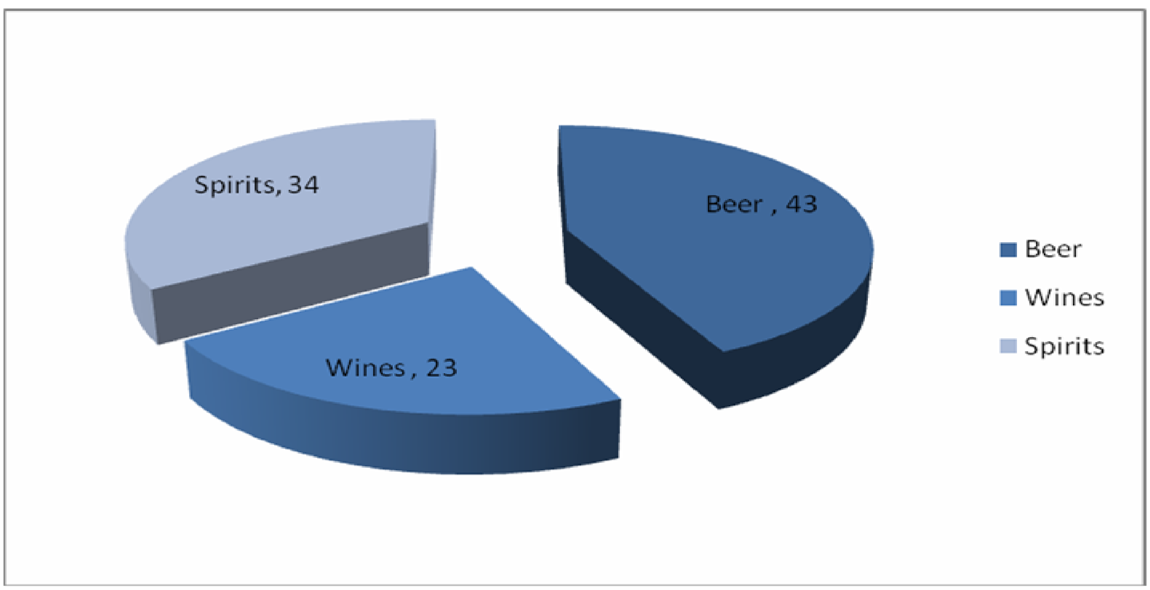


From the findings as shown by figure 4.4 above, 89% of the respondents indicated that their companies were using board of directors as their form of management. The rest of the respondents (11%) indicated that their companies were independent. These findings clearly show that majority of the beer companies were using board of directors as their form of management.

### 4.2.5 Various brands produced by beer companies

The researcher also requested the respondents to indicate various brands that their firms were producing.

**Figure 4. 5: Various brands produced by beer companies**

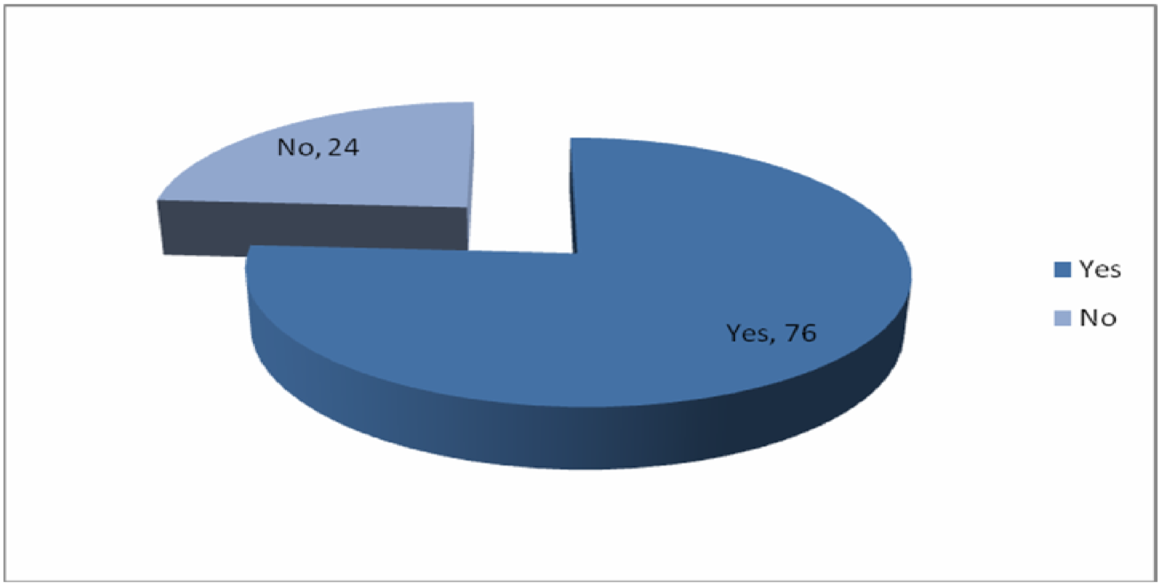



From the findings, as shown by figure 4.5 above, 43% of the respondents indicated that their companies were producing beer, 34% indicated that their companies were producing spirits and 23% indicated that their firms were producing wines. This clearly shows that majority of the firms were mostly producing beer, followed by spirits and wines.

### 4.3 Competitive strategies dealing with increased competition

The researcher requested the respondents to indicate whether their company had competitive strategies to deal with increased competition in brewing industry.

**Figure 4. 6: Competitive strategies dealing with increased competition**

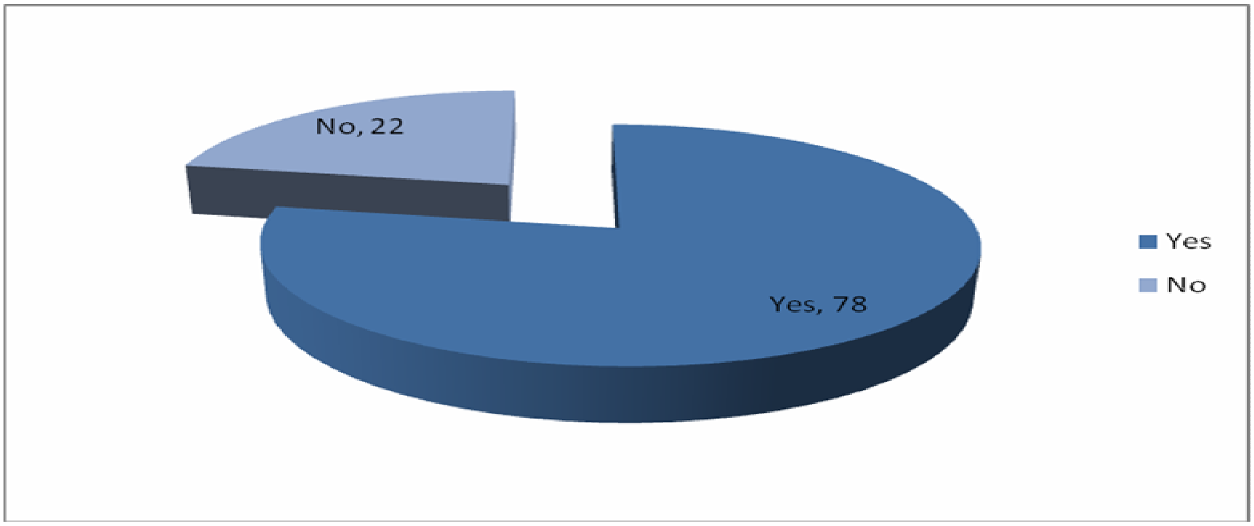



From the findings as shown by figure 4.6 above, 76% of the respondents indicated that their companies had competitive strategies to deal with increased competition in brewing industry. The rest of the respondents (24%) indicated their companies had competitive strategies to deal with increased competition in brewing industry. From these findings we can deduce that most of the companies had competitive strategies to deal with increased competition in brewing industry.

#### 4.3.1 Strategy enforcement

The researcher also requested the respondents to indicate the strategy their companies were using to reinforce their strategies.

**Figure 4. 7: Strategy enforcement**

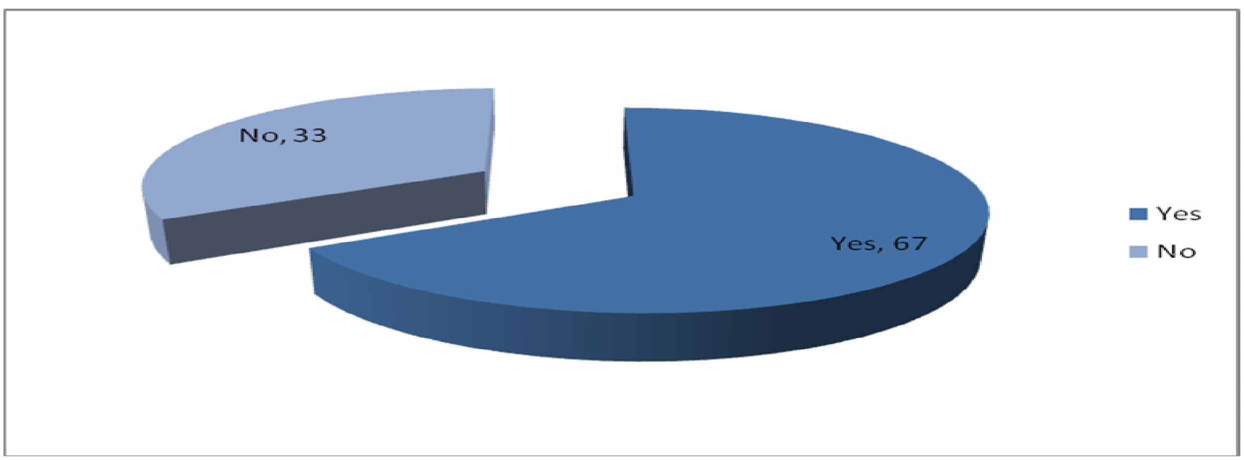



From the findings as shown by figure 4.7 above, 78% of the respondents indicated that their firms were enforcing their competitive strategies while 22% of the respondents indicated that their companies were not enforcing their strategies. This clearly shows that most of the companies were reinforcing their competitive strategies.

### 4.3.2 Challenges of Competition

The researcher requested the respondents to indicate whether they were facing challenges in marketing their brewing products.

**Figure 4. 8: Challenges facing marketing of brewing products**

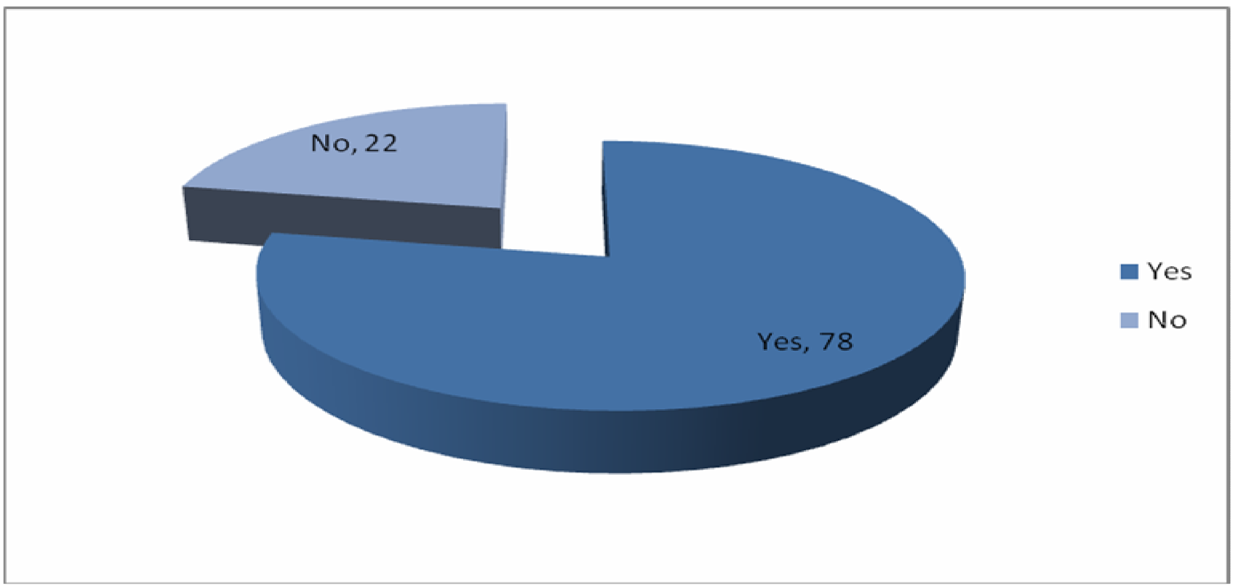


According to the findings, 67% of the respondents indicated that their companies were facing challenges marketing their beer products while 33% indicated that their companies were not facing challenges marketing their beer products. This clearly shows that majority of the beer companies face challenges in marketing their beer products.

### 4.3.3 Brewing firms are and firms performance

The researcher requested the respondents to indicate whether other companies were a threat to their firms' performance.

**Figure 4. 9: Brewing firms are and firms performance**




From the findings as shown by figure 4.9 above, 78% of the respondents agreed that other companies were a threat to their firms' performance while 22% disagreed. From these findings we can deduce that beer companies were a threat to each other's firms' performance.

**Table 4. 1: Challenges of competition in beer firms**

| Variable | Mean | Std deviation |
|---|---|---|
| Lack of market | 1.89 | 0.984 |
| Low sales | 3.65 | 0.834 |
| So many brands in the market | 4.03 | 0.733 |
| Heavy legislation | 3.76 | 0.837 |
| Lowering of prices by other firms | 3.78 | 0.836 |
| Low profits | 3.98 | 0.723 |
| Heavy costs of production | 4.02 | 1.023 |
| Increasing advertising cost | 4.04 | 1.021 |
| Low market penetration | 4.01 | 0.893 |
| Low market share | 3.76 | 0.728 |
| Your brands are unknown | 3.87 | 0.837 |
| Fear of change | 3.94 | 1.021 |
| Old machinery of production | 4.01 | 0.736 |
| Heavy distributional costs | 4.09 | 0.983 |

Table 4.1 above shows the extent to which the respondents agree with the stated challenges of competition the beer firms were facing. According to the scale those factors which were not considered at all were awarded 1 while those which were considered to a very great extent were awarded 5. Within the continuum are 2 for low extent, 3 for moderate extent and 4 for great extent. Mean (weighted average) and standard deviation were used to analyze the data. According to the researcher those factors with a mean

close to 3.5 were rated as to a very great extent while those with a mean close to 3.0 were rated to a low extent or even not considered at all. Similarly, the higher the standard deviation, the greater is the level of variations in response among the respondents.

The respondents indicated with a mean of 4.09 and a standard deviation of 0.983 that heavy distributional costs were acting as a challenge to a great extent. In addition, the respondents indicated with a mean of 4.04 and a standard deviation of 1.021 increasing advertising cost was also a challenge to a great extent. In addition, the respondents indicated with a mean of 4.03 and a standard deviation of 0.733 that so many brands in the market were acting as a challenge in the beer firms to a great extent. Further, the respondents indicated with a mean of 4.02 and a standard deviation of 1.023 that heavy costs of production were acting as a challenge to a great extent. The respondents also indicated with a mean of 4.01 and a standard deviation of 0.893 that low market penetration was acting as a challenge to a great extent.

The respondents also indicated with a mean of 4.01 and a standard deviation of 0.736 that old machinery of production was acting as a challenge to a great extent. The respondents also indicated with a mean of 3.98 and a standard deviation of 0.723 that low profits were acting as a challenge to beer firms to a great extent. In addition, the respondents indicated with a mean of 3.94 and a standard deviation of 1.021 that fear of change was acting as a challenge to beer firms to a great extent. Further, the respondents indicated with a mean of 3.87 and a standard deviation of 0.837 that the fact that their brands are unknown was acting as a challenge to the beer firms to a great extent. Further, the respondents indicated with a mean of 3.78 and a standard deviation of 0.836 that lowering of prices by other firms was acting as challenge to a great extent. Further, the respondents indicated with a mean of 3.76 and a standard deviation of 0.837 that heavy legislation was acting as a challenge to the beer firms to a great extent. In addition, the respondents indicated with a mean of 3.76 and a standard deviation of 0.728 that low market share was acting as a challenge to the beer firms to a great extent. The respondents also indicated with a mean of 3.65 and a standard deviation of 0.834 that low sales were acting as a challenge to the beer firms to a great extent. Finally, the respondents indicated with a mean of 1.89 and a standard deviation of 0.984 that lack of market was acting as a challenge to a low extent.

### 4.4 Competitive strategies

The researcher also requested the respondents to indicate the extent to which they applied each of the stated strategies to deal with competition in the beer industry.

**Table 4. 2: Competitive strategies**

| Strategies | Mean | Std deviation |
|---|---|---|
| **Cost leadership** | 3.99 | 0.928 |
| Reduced overheads /fixed costs | 3.87 | 0.728 |
| Mass production (economies of scale) | 3.69 | 0.836 |
| **Offensive strategies** | 4.08 | 1.022 |
| Try to neutralize the competitive strength of the rival firms | 4.02 | 0.963 |
| Create attention through brand perceptions | 3.56 | 1.029 |
| Increased advertising | 4.11 | 0.892 |
| New products | 3.94 | 0.726 |
| Secures first mover advantages | 3.69 | 0.972 |
| Price reduction | 2.08 | 0.782 |
| Use of retaliation upon moves by rivals | 3.56 | 0.726 |
| **Defensive strategies** | 3.45 | 0.832 |
| Preventing new entrants | 2.01 | 0.726 |
| Government intervention strategies | 2.04 | 0.725 |
| Focusing on market segments | 3.65 | 0.932 |
| Automation of services | 3.45 | 1.021 |
| **Collusive strategies** | 3.21 | 0.902 |
| Strategic alliances | 1.87 | 1.092 |
| Joint reduction of the supply below its competitive level to raise price | 4.02 | 0.983 |
| **Products and services** | 4.11 | 0.829 |
| Outsourcing | 4.12 | 0.785 |
| Quality products | 4.32 | 0.675 |
| Has differentiated her products | 4.09 | 0.938 |
| Contracting farmers | 3.01 | 1.093 |

From the findings, the respondents indicated with a mean of 3.99 and a standard deviation of 0.928 that their companies were using cost leadership to a great extent. The respondents also indicated with a mean of 3.87 and a standard deviation of 0.728 that their companies were using reduced overheads /fixed costs as their competitive strategies to a great extent. Further, the respondents indicated with a mean of 3.69 and a standard deviation of 0.836 their companies were using mass production (economies of scale) as a competitive strategy to a great extent.

The respondents also indicated with a mean of 4.08 and a standard deviation of 1.022 that their companies were using offensive strategies as a competitive advantage to a great extent. The respondents also indicated with a mean of 4.02 and a standard deviation of 0.963 that their companies were trying to neutralize the competitive strength of the rival firms to a great extent. The respondents further indicated with a mean of 3.94 and a standard deviation of 0.726 that their companies were using new products as a competitive strategy to a great extent. Further, the respondents indicated with a mean of 3.89 and a standard deviation of 0.892 that their companies were using increased advertising as competitive strategy to a great extent. In addition, the respondents indicated with a mean of 3.69 and a standard deviation of 0.972 that their companies were using secures first mover advantages as a competitive strategy to a great extent. The respondents further indicated with a mean of 3.56 and a standard deviation of 1.029 that their companies were creating attention through brand perceptions as a competitive strategy to a great extent. The respondents further indicated with a mean of 3.56 and a standard deviation of 0.726 that their companies were using retaliation upon moves by rivals to a great extent. The respondents also indicated with a mean of 2.08 and a standard deviation of 0.782 that their companies were using price reduction as a competitive strategy to a low extent.

The respondents also indicated with a mean of 3.65 and a standard deviation of 0.832 that their companies were using defensive strategies as competitive strategies to a great extent. In addition, the respondents indicated with a mean of 3.45 and a standard deviation of 0.932 that their companies were focusing on market segments as a competitive strategy to a great extent. Further, the respondents indicated with a mean of 3.45 and a standard deviation of 1.021 that their companies were using automation of services as a competitive strategy to a great extent. However, most beer companies were using government intervention strategies (M=2.04, SD=0.725) and preventing new entrants (M=201, SD=0.726) to a low extent.

The respondents further indicated with a mean of 3.21 and a standard deviation of 0.902 that their companies were using collusive strategies as a competitive strategy to a great extent. The respondents also indicated with a mean of 4.02 and a standard deviation of 0.983 that their companies were using Joint reduction of the supply below its competitive level to raise price as a competitive strategy to a great extent. Further, the respondents indicated with a mean of 3.87 and a standard deviation of 1.092 that their companies were using strategic alliances as a competitive strategy to a great extent.

The respondents also agreed with a mean of 4.11 and a standard deviation of 0.829 that their companies were using products and services as a competitive strategy to a great extent. In addition, the respondents indicated with a mean of 4.12 and a standard deviation of 0.785 that their companies were using outsourcing as a competitive strategy to a great extent. Further, the respondents indicated with a mean of 4.32 and a standard deviation of 0.675 that their companies were using quality products as a competitive strategy to a great extent. The respondents also indicated with a mean of 4.09 and a standard deviation of 0.938 that their companies had differentiated their products as a competitive strategy to a great extent. Finally, the respondents indicated with a mean of 3.01 and a standard deviation of 1.093 that their companies were contracting farmers as a competitive strategy to a moderate extent.

## 4.5 Discussion of the Findings

The study established that that majority of the respondents companies had been in operation for between 25 and 35 years. In addition, most of the bear companies in this study were limited companies and were public companies. Further, majority of the beer companies were using board of directors as their form of management. Majority of the firms were mostly producing beer, followed by spirits and wines. Most of the companies had competitive strategies to deal with increased competition in brewing industry. In addition, most of the companies were reinforcing their competitive strategies.

This study established that majority of the beer companies face challenges in marketing their beer products. In addition, beer companies were a threat to each other's firms' performance. The study revealed that heavy distributional costs increasing advertising cost, many brands in the market, heavy costs of production, low market penetration, old machinery of production, low profits, fear of change, fact that their brands are unknown, lowering of prices by other firms, heavy legislation, low market share and low sales were challenges that beer companies were facing in marketing their products.

The study established that the beer firms were using cost leadership as a competitive strategy. The companies were using reduced overheads /fixed costs and mass production (economies of scale).

The study also found that beer firms were also using offensive strategies as a competitive advantage to a great extent. In relation to offensive strategies the beer firms were trying to neutralize the competitive strength of the rival firms to a great extent, were using new products, advertising and were using secures first mover advantages as a competitive strategy to a great extent. The beer firms were also creating attention through brand perceptions and were using retaliation upon moves by rivals to a great extent. However, the beer firms were also using price reduction as a competitive strategy to a low extent.

The study also established that the beer companies were using defensive strategies as competitive strategies to a great extent. Further, the companies were focusing on market segments as a competitive strategy to a great extent and were using automation of services as a competitive strategy to a great extent. However, most beer companies were using government intervention strategies and preventing new entrants to a low extent.

The study also revealed that the beer firms were using collusive strategies as a competitive strategy to a great extent. The beer firms were also using Joint reduction of the supply below its competitive level to raise price as a competitive strategy to a great extent and were using strategic alliances as a competitive strategy to a great extent.

This study also found that the beer firms were using products and services as a competitive strategy to a great extent. In addition, the beer firms were using outsourcing as a competitive strategy to a great extent. Further, the beer firms were using quality products as a competitive strategy to a great extent. The beer firms were had differentiated their products as a competitive strategy to a great extent. Finally, the beer firms were contracting farmers as a competitive strategy to a moderate extent.

# CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presented the discussion of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the objective of the study which was to establish the competitive strategies in beer brewing industries in Kenya cope with challenges of competition. What are the competitive challenges facing beer brewing firms? What are the competitive strategies adopted by firms in the brewing industry in Kenya to cope with challenges of competition?

## 5.2 Summary of the findings

The study was conducted in Nairobi among the beer brewing firms. Most of the firms were established more than 2 decades ago in the early 90’s. They were mostly public companies managed by board of directors producing spirits, beer and wines.

The study has found that the beer firms in Kenya are facing challenges. The study noted that the beer firms were facing heavy distributional costs (M=4.09, SD=0.983), increasing advertising cost (M=4.04, SD=1.021), many brands in the market (M=4.03, SD=0.733), heavy costs of production (M=4.02, SD=1.023), low market penetration (M=4.01, SD=0.893), old machinery of production (M=4.01, SD=0.736), low profits (M=3.98, SD=0.723), fear of change (M=3.94, SD=1.021), fact that their brands are unknown (M=3.87, SD=0.837), lowering of prices by other firms (M=3.78, SD=0.836), heavy legislation (M=3.76, SD=0.837), low market share (M=3.76, SD=0.728), low sales

(M=3.65, SD=0.834) were challenges that beer companies were facing in marketing their products.

The study findings established several competitive strategies used by beer firms in Kenya. These included use of cost leadership strategy such as reducing overheads/fixed costs and mass production techniques with an aim of reducing the costs of production.

The beer firms use offensive moves by creating to get competitive advantages, neutralizing the competitive strength of the rival firms, using new products, advertising, use of first mover advantages, creating attention through brand perceptions and using retaliation tactics to counter rival moves.

The study findings indicated that beer brewing firms in Kenya also used defensive strategies to enhance their competitiveness. The study established that firms focused on some market segments, used automation services, government intervention strategies and prevented new entrants.

The study findings showed that beer firms employed collusive strategies as a competitive strategy. These included joint reduction of the supply so as to raise price and formed strategic alliances.

In addition to the above strategies, the firms were using other competitive strategies such as outsourcing, production of quality and highly competitive products, differentiation and contracting of farmers.

## 5.3 Conclusion of the Study

This study concludes that majority of the beer companies face challenges in marketing their beer products. In addition, beer companies were a threat to each other's firms' performance. The study revealed that heavy distributional costs, increasing advertising cost, many brands in the market, heavy costs of production, low market penetration, old machinery of production, low profits, fear of change, fact that their brands are unknown, lowering of prices by other firms, heavy legislation, low market share, low sales were challenges that beer companies were facing in marketing their products.

The study concludes that the beer firms were cost leadership as a competitive strategy. The companies were using reduced overheads /fixed costs and mass production (economies of scale). The study also concludes that beer firms were also using offensive strategies as a competitive advantage to a great extent. The study also established that the beer companies were using defensive strategies collusive strategies as a competitive strategy to a great extent. This study also found that the beer firms were using products and services as a competitive strategy to a great extent.

## 5.4 Recommendations for Policy and Practice

This study established that fear of change was acting as a challenge in marketing to most beer firms in Kenya. This study therefore recommends that the management of beer firms should accept change and adopt technology in marketing.

This study established that beer companies were using government intervention strategies to a low extent. This study therefore recommends that the government should make policies that can regulate the competition in the beer industry.

The study also established that the beer firms were not preventing new entrants to the industry. This study therefore recommends that the beer firms should put defensive mechanisms as competitive advantages.

The study also found that the beer firms were using strategic alliances as a competitive strategy to a low extent. This study therefore recommends that the beer firms should look forward to make strategic alliances.

### 5.5 Limitation of the study

As a part time student who needs to balance with studies with full time employment, the researcher was not able to undertake an extensive and exhaustive research limiting the researcher to a small sample. The researcher was a self-sponsored student relying on savings to progress his studies and therefore there are expected challenges in relation time and financial resources. To counteract this, the researcher limited the study a sample size of 100 managerial staff working in marketing departments in beer.

There were expected challenges during data collection where some target respondents may fail to give the required information. The researcher however worked at winning the confidence of those involved in this research by giving them the reasons for the research and assuring them of confidentiality.

### 5.6 Suggestion for further Studies

From the study and related conclusions, the researcher recommends further research in the area of the influence of competition on the financial performance of beer firms in

Kenya. The study also recommends further studies in the area of factors affecting the competitive strategies of beer firms in Kenya.

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# APPENDICES

## Appendix: Questionnaire

### Section A: Demographic information

1. For how long has your company been in operation?

   Below 25 years [ ]

   25-35 years [ ]

   36-45 years [ ]

   Above 45 years [ ]

2. What is the form of ownership of your brewing company?

   Limited company [ ]

   Partnership [ ]

   Private [ ]

3. Is your company a Public [ ] or Private [ ]

4. What form of management does your company hold

   Independent [ ] Board of Directors [ ]

5. What are the various brands produced by your company

   Beer [ ]

   Wines [ ]

   Spirits [ ]

6. Does your company have competitive strategies to deal with increased competition in brewing industry?

   Yes [ ] No [ ]

7. If yes in (6) are the strategies enforced?

Yes [ ] No [ ]

**Section B: challenges**

8. Are there challenges facing marketing of your brewing products?

   Yes [ ] No [ ]

9. Are other brewing firms are threat to your firms performance?

   Yes [ ] No [ ]

10. Indicate to what extent each of the following challenges of competition faces your beer firm.

| Variable | Not at all | Little extent | Moderate extent | Great extent | Very great extent |
|---|---|---|---|---|---|
| Lack of market | | | | | |
| Low sales | | | | | |
| So many brands in the market | | | | | |
| Heavy legislation | | | | | |
| Lowering of prices by other firms | | | | | |
| Low profits | | | | | |
| Heavy costs of production | | | | | |
| Increasing advertising cost | | | | | |
| Low market penetration | | | | | |
| Low market share | | | | | |
| Your brands are unknown | | | | | |
| Fear of change | | | | | |
| Old machinery of production | | | | | |
| Heavy distributional costs | | | | | |

11. State other challenges (specify below).

    ……………………………………………………………………

…………………………………………………………………

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**Section C: Competitive strategies**

12. Indicate the extent to which you apply each of the following strategies to deal with competition in the beer industry.

| **Strategies** | Not at all | Little extent | Moderate extent | Great extent | Very great extent |
|---|---|---|---|---|---|
| **Cost leadership** | | | | | |
| Reduced overheads /fixed costs | | | | | |
| Mass production (economies of scale) | | | | | |
| **Offensive strategies** | | | | | |
| Try to neutralize the competitive strength of the rival firms | | | | | |
| Create attention through brand perceptions | | | | | |
| Increased advertising | | | | | |
| New products | | | | | |
| Secures first mover advantages | | | | | |
| Price reduction | | | | | |
| Use of retaliation upon moves by rivals | | | | | |
| **Defensive strategies** | | | | | |
| Preventing new entrants | | | | | |
| Government intervention strategies | | | | | |
| Focusing on market segments | | | | | |
| Automation of services | | | | | |
| **Collusive strategies** | | | | | |
| Strategic alliances | | | | | |
| Joint reduction of the supply below its competitive level to raise price | | | | | |
| **Products and services** | | | | | |
| Outsourcing | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Quality products | | | | | |
| Has differentiated her products | | | | | |
| Contracting farmers | | | | | |

13. Apart from the above strategies what other strategies does your company employ to deal with competition? Specify below.

………………………………………………………………………………………….

………………………………………………………………………………………….

………………………………………………………………………………………….

………………………………………………………………………………………….

Thank you