STRATEGIES ADOPTED BY MULTICHOICE KENYA LIMITED IN RESPONSE TO INFORMATION AND COMMUNICATIONS TECHNOLOGY CONVERGENCE

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A Management Research Project Submitted in Partial Fulfilment of the Requirements for the Award of the Degree of Master of Business Administration (MBA), School of Business, University of Nairobi

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DECLARATION

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

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

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DEDICATION

To my beloved wife Florence, my parents Mr and Mrs Onunga, for their encouragement and my child Fidel for his patience when I could not give him quality attention during my study.

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All research carried out often require support and efforts of many people. Due to the fact that I cannot reach all of them. I hope this acknowledgement serves to convey my sincere appreciation for their help.

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The completion of this project could not have been possible without the finance, material and encouragement I received from my wife and parents. I sincerely appreciate them. I am also greatly indebted to my son Fidel for his patience.

Above all, I thank God, the Almighty who opened the door for me to pursue the Masters Degree and for providing me with good health throughout my period of study.

ABSTRACT

The aim of this study was to establish the strategies adopted by Multichoice Kenya Limited in response to the information and communication technologies (ICT) convergence. The objectives of the study were to determine the strategic responses adopted by Multichoice Kenya Limited due to information and communications technologies convergence and to determine the rationale for Multichoice Kenya Limited strategic response. To achieve this study adopted a case study research design in which the organization of study was Multichoice Kenya Limited. Data was collected by use of interview schedules. The data was analysed by use of content analysis.

The study has established that Multichoice has witnessed turbulence in its business environment. Convergence has presented challenges to be overcome and opportunities to be exploited. There has since been increased competition even from outside their traditional boundary due to the lowering of prohibitive barriers to entry. Increased competition has seen Multichoice Kenya realising drop in its profitability, loss of programmes right, price wars, increase in cost of programme rights, loss of subscribers to competitors, and a decline in revenue from advertisement due to the shift to advertise in the internet and mobile phones. Convergence has also enabled the organization to use its single network to provide several communication services which previously required separate networks. Increased competition has also created awareness enabling the organization to grow it subscriber base.

Multichoice has reacted to the challenges by employing a local General Manager Mr Isaboke who understands better the business environment in Kenya due to his wealth of experience. The organization has adopted strategies aimed at improving the customer satisfaction by acquisition of high quality programmes and technology The study established that Multichoice Kenya has increased its distribution channels to reach and attend to its client's problems. The organization set a research department to carryout research on business environment and advice on the strategies to adopt. The organization formed strategic alliances with KBC and Safaricom and provide mobile television. They have continuously introduced new products for different market niches. They have pursued a broad product lines to deter entry. Vertical integration into programme development has enabled it to hold premium programmes from its competitors In

promotion strategies, advertising expenditures has increased considerably with the use of various advertising media. Diversification has enabled the organization to venture in new business creating new revenues from merchandising, sponsorships, rights trading, interactive and cross platform activities. In social responsibility, there has been a move by the organization to be more caring to the local communities through such things as donations to the needy, talent development and sponsorships etc. Pricing initiatives have also been enhanced. Study also reveals that the strategies adopted are fundamentally relevant in overcoming the challenges and exploiting the opportunities that technological innovations in the ICT sector has presented.

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CHAPTER ONE: INTRODUCTION

1.1 Background

It is often observed that firm's survival and success have become problematic in the turbulent environments that firms face today. Organizations are therefore forced to select a mode of strategic behaviour which matches the levels of environmental turbulence, and develop a resource capability which complements the chosen business model. The information communication industry has witnessed tremendous innovations which has been both a blessing and a curse to the players in the industry especially the pay-television. The technological innovations have resulted into the information and communication technologies convergence presenting challenges and opportunities for Multichoice Kenya limited. The developments in the ICT thanks to innovations has resulted into the lowering of entry barriers to the sector which only a few years ago, had only a few firms who enjoyed the monopoly of the provision pay television. ICT convergence also provides the opportunity for the organization to offer new services at reduced cost (Katz and Waroch, 1998). The key concern of every organization is continued existence over time but their continuous existence is not guaranteed due to changes in business environment. Strategic response concerns what a firm is doing in order to gain a sustainable competitive advantage in a dynamic business environment.

The environment in which organizations operate is very important since they depend on environment (Ansoff and Mc Donnel, 1990). They derive their inputs from and discharge their outputs to the environment (Porter, 1985). The business environment consists of all the conditions and forces that affect its strategy options and defines its competitive situation (Pearce and Robinson, 2005). All organizations lend themselves to the external environment which is highly dynamic and continually presents opportunities and threats. The turbulence in the environment no doubt, impacts on the organization. This implies that the organizations have to respond to the environmental changes to remain stable and successful. Firms therefore need to develop capability to manage threats and exploit emerging opportunities promptly. This requires formulation of strategies that constantly match capabilities to environmental requirements. To be able to build a competitive advantage, organizations need to examine their environment both external and internal and respond accordingly (Porter, 1985).

1.1.1 Television industry in Kenya

Kenyan television is a classic example of an industry whose good chances for development had been frustrated consistently by government sensitivity and political interference. Since its inception in 1959, Kenya's television market has undergone considerable changes following liberalisation of the broadcast media in 1990. In 1959 the Kenya Broadcasting Corporation was established by the British colonial administration with the objective of providing radio and television broadcasting. In 1964, the corporation was named Voice of Kenya (VOK) and later in 1989 renamed Kenya Broadcasting Corporation. It was accorded a semi-autonomous status founded on the premise that it would adopt a more commercial-oriented stance.

Liberalization of the industry in 1990 saw the entry of a second television station, the Kenya Television Network (KTN) transmitting on UHF channel. More broadcasters-Nation TV, Family TV, Citizen TV, STV, KBC Channel 2, Multichoice (K) Limited and Cable Television Network (CTN) -were launched by 1999 to join Kenya Broadcasting Corporation and Kenya Television

Network. Other new entrants to the television market include Metro TV, East Africa TV, Savare TV, K24, Oxygen TV and Zuku TV (http://www.africafilmtv.com/pages/profiles/Kenya.htm).

All the broadcasters are non pay TV stations except MultiChoice Kenya Limited, Cable television network (CTN), Oxygen Television and Zuku which are pay-television stations. The pay television stations compete on the multi-channel video platform. Multichoice (K) Limited utilizes the direct broadcast satellite technology while CTN and Zuku uses the cable network technology. The pay TV Company's process of creating and distributing programming to households in Kenya involves production/acquisition of programming, packaging of programming into programming networks and distribution of programming to customers by subscription via cable, satellite, IPTV, digital terrestrial (DTT) or Internet. Some entities participate in two or more of these activities or markets (that is vertical integration), while others participate in a single market (www.cck.go.ke).

The pay TV business environment has changed and competition within the industry has intensified. In Kenya's pay-TV market, cable TV and satellite broadcast are the key platform operators. Most of the changes have been driven by technology and demand. The advent of internet has created another distribution platform for information and increasingly, entertainment services. This has resulted in reduction of advertisement revenues since most advertisements are posted in the internet, websites, e-mails, mobile phones and CD databases (www.cck.go.ke). Economic growth in Kenya has seen the number of television sets in households grow. At present three million households in the country own TV sets. Fewer than 40000 subscribe to pay-tv. This is due to credit control problems associated with unemployment, low disposable income and rising inflation. Their efforts to grow revenues is also increasingly being frustrated by improved quality of programming and distribution of programming by non-pay TV stations who continue to attract more advertisement revenues due to their larger audience (http://www.africafilmtv.com/pages/profiles/Kenya.htm).

CTN is Kenya's first cable pay-TV network launched in March 1994. CTN draw programs from a satellite dish decode them and then pass them through cable stations to subscribers. The company contracted with the Kenya power and lighting company to allow their network to run cables parallel to the utility's electric cables. Its intermittent transmission has so far comprised Indian drama and film. Oxygen TV which entered the market in 2006 offers a terrestrial based service. It has focused on providing services to the low and middle class bracket. To receive their channels one needs to buy an Oxygen set-top box at a low price and a normal UHF antenna. Zuku television is the latest entrant in the pay-tv market. Zuku TV a cable network television is managed by internet provider Wananchi. It is Kenyan's first triple-play service. Wananchi provides broadband connection and television service for minimal subscription fees. Best of all they provide free equipments and low installation costs (http://www.africafilmtv.com/pages/profiles/Kenya.htm)

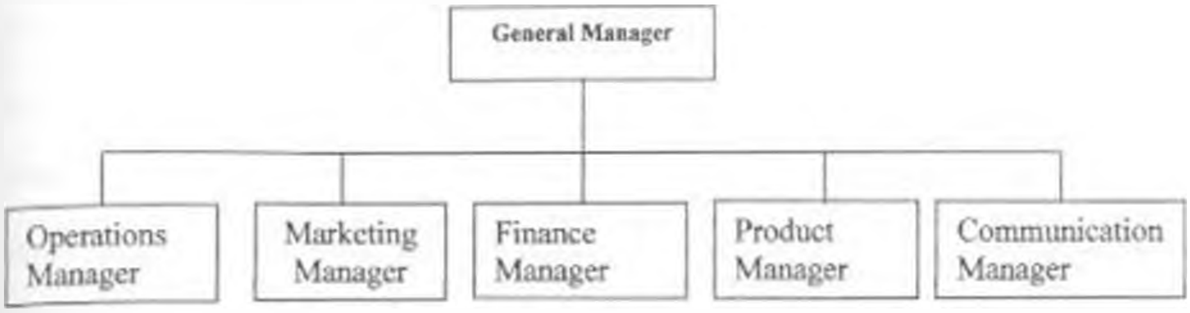
1.1.2 Multichoice Kenya Limited

Multichoice Kenya limited a subsidiary of Multichoice Africa; a flagship of MIH holdings has enjoyed the largest market share since the firm come to Kenya in 1995 as a joint venture with Kenya Broadcasting Corporation. Currently Multichoice Kenya Limited offers the following brands: Dstv providing digital satellite broadcasting services, Mnet, Supersports, Dstv mobile and Oracle. Their several products include;

Products	**Number of Channels**	**Monthly subscription**
DStv Premium	57 channels	Ksh. 5,800
DStv Compact	33 channels	Ksh. 2,725
DStv Family	27 channels	Ksh. 1,850
Dstv easy view	A selection of news, general entertainment, religious, interactive, shopping, kids and free to air channels	
Dstv select	Channels packed with action movies, sports, music and more	
DStv Access	Channels packed with news and religious channels.	Ksh 800

Multichoice provides internet services to broadband and dial up customers. MultiChoice has chosen Kenya among a handful of countries picked because of its positive growth of mobile telephone sector and trend-conscious profile of its customers for trials of new technology known as DVB-H (Digital Video Broadcasting-Handheld). A mobile broadcast technology that allows for the digital terrestrial broadcast of live television channels to a mobile phone. (Daily Nation, Friday July 18, 2008).

Figure 1.1: Organization Structure



Operating structure of any organization is important and can be used by any organization as a competitive advantage especially in turbulent environment. Managers are the agents of change and therefore the structure of the organization is an important strategy that any organization keen on remaining relevant must take seriously. The organization of companies, whether small, medium or large falls into categories referred to as centralized, decentralized, or a modification or a combination of centralized and decentralized structures. The study was concerned with the strategies that the Multichoice Kenya had adopted in response to ICT convergence.

1.2 Statement of the Problem

The business environment in which organizations are operating today faces many threats and opportunities. As Ansoff (1990) puts it, the key challenge for managers in the 1990's is "assuring competitiveness and profitability" for their companies in turbulent environments. He points that never in history has the pace of change in the business environment been as rapid as it is now. Recent developments such as the global marketplace, the opening up of Eastern Europe, the Gulf crisis, the slowdown in the world economy, have posed real challenges for managers and made it increasingly difficult for companies to succeed in the turbulent environment (Ansoff, 1990). The structural changes triggered by technological innovations in the ICT sector are taking place rapidly. Even so, we are still feeling only the first tremors of the seismic shift that convergence trend is set to unleash in the electronic media business and society. Pay television companies must adopt a set of strategies that meet best their objectives, but the successes of these strategies depend on corresponding capabilities of the firm which must be realigned in tandem with environmental turbulence.

Following convergence of the ICT sector, Multichoice (K) Limited has witnessed increased competition even from outside their traditional industry due to lowering of entry barriers. Firms which previously provided internet and telephone services only, for instance Wananchi Online are today in addition providing pay-TV services (Zuku) among others. The increasing number of non-pay television companies who provide viewers with a wide range of relatively good quality programmes to choose from coupled with changes in socio-cultural trends such as education and increased demand for value has put a lot of pressure on the company's objective to grow its subscriber base and revenues. According to Kartz and Woroch (1998), ICT sector convergence has enabled firms to use single network to provide several communication services which traditionally required separate networks. Multichoice can now provide wider services at low costs, generating higher revenues and reaching new subscribers in new markets. The company, according to Ansoff and McDonnell (1990), must continuously reassess competitive factors which will bring future success. Whenever historical strategies do not match the future success factors, the firm develops new strategies or leaves the industry. In Kenya studies have been done on strategic responses by firms due to changed environmental conditions. Kombo (1996) addressed the issue of strategic responses of motor vehicle franchise holders in Kenya as a result of changed environmental conditions. Kandie (2000) also undertook study on strategic responses to competition by Telecom Kenya. Migunde (2000) also undertook a study on strategic responses by Kenya Breweries Limited. They all found out that firms had made substantial adjustments in their strategic variables such as providing new technology, product development, enhancing customer service, and cost management among others in order to survive.

Business environmental changes seem to affect every organization large and small across all sectors. The empirical review of the studies has shown that every organization responds to changes differently due to contextual, industry and management differences. Therefore strategic response gained from these studies may not be used to explain strategic responses in Multichoice Kenya. Further, none of the researches have focused on responses adopted by any pay television company in Kenya to the effects of convergence of ICT sector. Being the main player in the pay television industry, how has Multichoice responded to convergence?

1.3 Objectives of the Study

The objectives of the study were to:

(i). To determine the strategic responses adopted by Multichoice Kenya Limited due to information and communications technologies convergence.

(ii). To determine the rationale for Multichoice Kenya Limited strategic response.

1.4 Significance of the Study

The study will benefit the management of Pay television companies by sensitizing them on the strategic responses to challenges of ICT convergence. The findings are expected to help pay television companies identify strategic gaps in their strategic responses which they could exploit in order to cope with the emerging challenges and opportunities. The study will help government agencies and policy makers to develop policy frameworks that take into account the diverse needs of different stakeholders in the television industry. The study will also contribute to the existing literature in the field of strategic response to business environment change especially with regard to Multichoice Kenya Limited. The study may also for a basis for further research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The present chapter provides a review of the literature pertinent to the study. It provides a review of literature related to the strategic responses adopted by organizations due to environmental turbulence. It begins by exploring organizations and their environments for instance their reactions and capabilities. It then explores convergence ICT, where convergence in developing countries is looked at. This is followed by review of literature on types of strategic responses followed by challenges of competition in a converged environment.

2.2 Organization and its Environment

Miller (1998) suggests that organizations exist in a complex commercial, economic, political, technological, cultural and social environment. These environmental changes are more complex to some organizations than for others. For survival, an organization must maintain a strategic fit with the environment. The environment is important and an organization has to respond to its dynamism, heterogeneity, instability and uncertainty (Thomson, 1967). In addition, the competitive environment has been and continues to be driven by technological innovations, globalization, competition, extreme emphasis on price, quality and customer satisfaction. As a result, organizations must continuously create and innovate in order to stay relevant and be successful.

According to Miller (1998) a sustainable competitive advantage is achieved when there is a strategic fit between the external and internal environment. An organization's external environment includes economic forces, social-cultural, demographic, political and technological, while its competitive environment includes competitors, customers and suppliers. This external component should have a strategic fit with the internal environment, which includes the organization's systems, policies, resource capability and its corporate culture (Pearce and Robinson, 1997). Sauvé (2002) notes that, the environment is a critical factor for any organization's survival and success. It should be seen as a biosphere in which individuals and organizations live over the long term and as a community project in which one should be actively involved. It is a resource to be managed and to be shared, hence the need to effectively manage the value chain system and establish collaborations, partnerships and to get involved in social responsibility to enrich this resource and enhance the corporate image of the organization. It is noted that, many organizations are now more than ever being involved in social responsibility activities since a good corporate image can also be a source of competitive advantage. (Price water house Coopers and Nation, 2001). It is imperative that managers apply critical investigation into the realities of the changing environment of this millennium through enlightened diagnosis of the problems it poses.

The political and economic environment for example, can influence the lifestyles and the health of the people. This same environment should also be seen as a system, which calls for profound understanding in order to improve decision-making and to recognize the links between the past, present, and the future and between local and global matters.

2. 3 The Organization Environment, Strategic aggressiveness and Capability

Ansoff (1987), theorem states that for optimal success of an organization, the strategic aggressiveness (both technological and marketing) and components of capability (managers and organization climate, competence and capacity) must match the level of environmental turbulence in which the organization competes. Ansoff uses a five point integral scale to also measure corresponding five levels of strategy: 1) stable, 2) reactive, 3) anticipatory, 4) entrepreneurial, and 5) creative and corresponding five levels of capability: 1) custodial, 2) production, 3) marketing, 4)strategic and 5) flexible.

When there is alignment or minimum gap between the average level of competitive environment and each of the components of strategy and capability, then the organization should have optimal success. Ansoff theory states that at level 1 to 3, a firm can extrapolate the future from the past However at level 4 (discontinuous) and level 5 (surpriseful), strategic management must be used by organization to realistically plan for future successes in a highly turbulent competitive environment.

When a company creates a new product i.e. the personal computers, it also creates a whole new marketplace with new customers at turbulence level 5, which can shift to turbulence level 3 of marketing mentality. In such a scenario a "creative visionary" is replaced by a marketing guru as such a company would want to milk their "cash cow" and not to be continuously creating new dimensions If environment shifts to level 4 (discontinuous), where the future is only partially predictable from the past, it requires 4) entrepreneurial strategy and 4) strategic capability of the firm for optimal success.

Pearce and Robinson (1991) define strategic responses as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firms objectives. It is thus a reaction of what is happening in the environment of the organization. Aosa (1992) observed that the modern approach to strategic planning has developed as a response to increasing challenges caused by high levels of environmental turbulence. The top management spends a lot of their time in trying to cope with uncertainties induced by the environment. These uncertainties include competitors' moves, technological changes, economic fluctuations (Ansoff and McDonnell, 1990).

Schneider and Meyer (1991) stated that the assessment of environmental threats and opportunities and organizational strengths and weaknesses are the core to developing strategic responses. Strategic diagnosis helps the organization in determining changes to be made to its strategies and internal capabilities. Restructuring, shrinking, selective marketing and cost cutting constitute strategic responses that firms use when the environment changes. Restructuring is based on the notion that some activities within a business value chain are more critical to the success of its strategy than others (Pearce and Robinson, 1991). Process restructuring aims at bringing the company to an acceptable level of performance. It covers activities such as marketing, product development and service delivery within the aim of cutting cost. Functional restructuring involves laying off redundant staff or training the staff in functional skills where they are encouraged to acquire new skills. Downsizing may occur by reducing workload as well as eliminating functions. Downsizing helps firms to lower overhead, speed up response and eliminate red tape (King, 1997). Ansoff and McDonnell (1990) have identified three ways management responds to environmental changes as reactive management, decisive management and planned strategic management.

2.4 Organizational strategic responses to environmental Turbulence

Pearce and Robinson (1991) define strategic responses as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firms objectives. It is thus a reaction of what is happening in the environment of the organization. Aosa (1992) observed that the modern approach to strategic planning was developed as a response to increasing challenges caused by high levels of environmental turbulence. The top management spends a lot of their time in trying to cope with uncertainties induced by the environment. These uncertainties include competitors' moves, technological changes, economic fluctuations (Ansoff, 1990). Porter (1985) outlines three approaches to competitive strategy which lead to the Porters generic strategies model: Low cost leadership strategy; firm strives to be the overall low cost producer, Differentiation strategy; firm seeks to differentiate its product offering from that of its rivals and Focus strategy; firm focuses on a narrow portion of the market. Rather than cloning their global strategies or reluctantly adapting them to environment of operation, successful organizations will adopt innovative strategies in the market that allow them to more accurately pinpoint, and then to fully exploit, their own unique strengths (Peter, 2005).

Schneider and Meyer (1991) state that the assessment of environmental threats and opportunities and organizational strengths and weaknesses are the core to developing strategic responses. Strategic diagnosis helps the organization in determining changes to be made to its strategies and internal capabilities. Restructuring, shrinking, selective marketing and cost cutting constitute strategic responses that firms use when the environment changes. Restructuring is based on the notion that some activities within a business value chain are more critical to the success of its strategy than others (Pearce and Robinson, 19991). Process restructuring aims at bringing the company to an acceptable level of performance. It covers activities such as marketing, product development and service delivery within the aim of cutting cost. Functional restructuring involves laying off redundant staff or training the staff in functional skills where they are encouraged to acquire new skills. Down sizing may occur by reducing workload as well as eliminating functions. Downsizing helps firms to lower overhead, speed up response and eliminate red tape (King, 1997).

Never in history has the pace of change in the business environment been as rapid as it is today (Ansoff, 1990). Management consultants and academicians have suggested various success prescriptions to the turbulence in the business environment. One of the prescriptions suggested include maximising market share so as to reap economies of scale and hence lower costs of production. These strategic responses believe that company's competitiveness and profitability is optimised when it is the lowest cost producer (Ansoff, 1990). But a casual glance at today's reality reveals many successful companies that are not low cost producers. Firms such as IBM and Apple are selling their products at a premium. Thus while the ability to control costs is an important factor, it is only one of many strategic responses that affect the success in todays environment. Every strategy provides a solution only to a particular situation and scenario and that there is no universal prescription for management success.

Ansoff (1990) introduces the concept of environmental turbulence to describe the different strategies for different environments. He argues that when firms are faced with unfamiliar changes, they should revise their strategies and capabilities to match the turbulence level. According to the model presented in Appendix 1, a change in the environment from E_1 to E_2 represented by ΔE can be addressed best by change in the firm's strategy form S_1 to S_2 and capability from C_1 to C_2. Strategy needs to be flexible to allow room for address of any aspect of change thrust on the firm i.e. it must be real time response.

In an environment of turbulence level *E*, there is a range of success strategies from s_0^1 to S_n^1. According to Ansoff, after conducting a gap analysis, a firm selects a strategy, S^1 which best meets its objectives; but the success of the organization strategy depended on the internal capabilities of the firm. There are two, complementary types of capability: functional (R&D, marketing, production, etc.) and general management capability. Thus, so long as the environment remains on level E_1, the firm must have capabilities C^1_f and C^1_M to assure success of its strategy S^1. If, as the appendix figure 1 illustrates, turbulence analysis, shows that the future turbulence will move to a (higher or lower) level E_2, the range of effective strategies becomes s^2 to s_n^2. As a result, not only will the firm's strategy have to change to S^2, but so will the capabilities to C_f^2 and C^2_M. Thus, in strategic management, capability planning is added to strategy planning.

2.5 The Concept of Convergence in Information and Communications Technologies (ICT)

Broadly speaking, convergence is the erosion of boundaries among previously separate services, networks and business practices in the ICT sector. Technological innovation and market demands are the two factors driving the information and communication technology (ICT) sector towards convergence. Convergence is allowing firms to use single networks to provide several communication services that traditionally required separate networks. The broadcasting industry, the telecommunications industry and the image processing part of the computing industry (the internet/World Wide Web) are rapidly converging towards a single multimedia market. In this world, TV operators supply voice telephony, telecommunications companies supply video images, and the Internet is delivering both basic voice telephony and moving pictures on a commercial basis. Moreover, this convergence is expected to accelerate over the coming decade (Cowie and Marsden 1998). This new phenomenon is causing turbulence in the television industry. This turbulence has offered opportunities and challenges for pay television companies' worldwide (Katz and Woroch, 1998 Multichoice Kenya limited must realign its capabilities to assure success of its new strategic choices.

Besides these new innovations in the ICT, technological and regulatory barriers to entry in both telecommunications and broadcasting markets have been falling, and are likely to continue to do so. Telecommunications markets around the world have been liberalized, following the examples of the UK and the USA in 1984, and basic voice telephony in the EU was officially liberalized in January 1998. In broadcasting, shortage of effective spectrum created perceived barriers to entry. Consequently, specific prior structural regulation was instituted to prevent abuse of monopoly power, integrated in Europe with positive content regulation in the public interest (Hoffman-Reim, 1996). However, the development of multichannel service provision and the use of digital technology have essentially removed the spectrum barrier to entry. Three main forms of convergence can be highlighted. The first, service convergence or "multiple play" allow a firm to use a single network to provide several communication services that traditionally required separate network. The second form is network convergence, where a common standard allows several types of network to connect with each other. While the two forms of convergence are technological, the third form corporate convergence, results from mergers, acquisitions or collaborations among firms (Hargreaves, 2001).

Convergence results from service providers adopting new technologies and business practices. The fundamental technology drivers are the digitalization of communication and falling cost of computing. Both coupled with rapidly growing demand led to a proliferation of digital devices. IP networks, deployment of broadband networks which allows provision of multi media content at reasonable prices are supporting introduction of convergence.

With these technical and market factors evolving, convergence has now found a significant traction with service broadcasters seeking increase revenues and cut cost of services provision (Market wire, 2008). Indeed demand for converged services is also evident. By the late 2007, there were more than 30 million "triple play" subscribers typically receiving telephony, video and internet services word wide. (Telegraphy, 2007).

2.5.1 Convergence in developing countries

In 2007, MTN Nigeria acquired VGC communications, a fixed and wireless phone provider. This is after VGC secured a unified license to offer fixed and wireless telephony; internet and value added services in 2006. The CEO of MTN noted that it made the acquisition with the intention of accessing VGC's infrastructure and labour to achieve convergence.

In 2006, Telefonica Chile began offering IPTV and satellite television services to counter a decline in fixed line revenues and subscriptions. Cable operator VTR saw its triple play subscribers base double in 2006 and is considering acquiring a 3G license to add mobile voice services in portfolio (Hargreaves, 2001).

2.6 Types of Strategic Responses

The period of late 1960's and early 1970's witnessed increased adoption of strategic planning as the period was characterised by relatively stable and growth in business environment. In the 1970's (more so in 1973) the business situation radically changed. There was increased environment turbulence, the great stability and predictability that characterized the preceding period was gone with the emergence of the energy crisis. Continued economic growth prospects, slowed down or disappeared all together. It therefore became necessary that this process be modified or adapted in order to cope with the turbulent business environment. The character of business planning had to change from what it had been in the past to reflect current business circumstances (Taylor, 1986).

Hall (1980), made similar observations in his study of how large manufacturing corporations in America were affected when their external environment became turbulent. He found out that many structures that were stable and highly profitable during the "go-go" decade of the 1960's were moving towards instability and marginal profitability. Moreover the broad range of corporate strategies and "success formulas", which brought prosperity in those early years were being replaced with a much narrower range of strategic choices that were becoming essential to survive in the hostile environment ahead. Thus when the changes in the external environment emerge, corporate managers have to direct a great deal of attention to redefining their business as a crucial step to formulation of survival strategies. There is also need to look beyond the ranks of one's competitors today and those that may become competitors tomorrow and exploit new markets. Abel (1980), observes that a business should be defined focusing on three dimensions, the customer groups that will be served, the customer needs that will be met and the technology that will satisfy these needs.

Porter (1979), pointed out that the forces affecting competition in an industry and their underlying causes, the corporate strategist is able to identify the company's strengths and weaknesses. The crucial strengths and weaknesses from strategic standpoint are the company's posture vis-à-vis the underlying causes of each force for example, where does the product stand against the substitutes and what are the barriers of entry.

Aaker (1996) arguing on competitive strengths and weaknesses states that statements of what the company or its brands should stand for and its program to customers is a strategic decision in every sense. He further adds that brands need to be selecting markets and need to be selecting and building assets for the future, rather than just engaging in tactical programs of the moment. He further states that the objective of a brand strategy is to create a business that resonates with customers, that avoids competitor strengths and exploits their weaknesses and that exploits its own strengths and neutralizes its weaknesses.

Strategy can be viewed as building defences against the competitive forces and finding positions in the industry where the forces were weakest. Knowledge of the firms' capabilities and of the causes of the competitive forces will highlight the areas where the firm should confront competition and where it should avoid. Given the opportunities and the challenges of ICT sector convergence; these are some of the strategic options that can be pursued to achieve sustained competitive advantage:

2.6.1 Grand strategies

Firms respond to increased competition by entering new markets with similar products. These could be markets that they are currently not serving or new geographical markets. Market entry strategies may include acquisitions, strategic alliances and joint ventures. Firms can also react to competitive forces by developing new products through diversification as a means to responding towards competitive forces. Diversification could be related or unrelated.

2.6.1.1 Strategic alliances

A Strategic Alliance is a formal relationship between two or more parties to pursue a set of agreed upon goals or to meet a critical business need while remaining independent organizations. Strategic alliances are co-operative agreements between firms that go beyond normal company-to-company dealings but fall short of mergers, acquisitions or full partnerships (Strickland and Thomson, 1993). Partners may provide the strategic alliance with resources such as products, distribution channels, manufacturing capability, project funding, capital equipment, knowledge, expertise, or intellectual property.

The alliance is cooperation or collaboration which aims for a synergy where each partner hopes that the benefits from the alliance will be greater than those from individual efforts. The alliance often involves technology transfer (access to knowledge and expertise), economic specialization, shared expenses and shared risk. Various terms have been used to describe forms of strategic partnering. These include 'international coalitions' (Porter and Fuller, 1986), 'strategic networks' (Jarillo, 1988) and, most commonly, 'strategic alliances'. Definitions are equally varied. An alliance may be seen as the 'joining of forces and resources, for a specified or indefinite period, to achieve a common objective'. As companies gain experience in building alliances, they often find their portfolios ballooning with partnerships. While these partnerships may contribute value to the firm, not all alliances are in fact strategic to an organization.

Leading companies from different parts of the world have recently formed strategic alliances to strengthen their ability to serve global markets. This has lead to savings in costs and wider market reach. Prahalad and colleagues (1989) suggest that it's crucial that firms not view alliances as passive opportunities to benefit from partners skills nor act as passive recipients of the results of those skills. Rather, firms should treat alliances as opportunities to actually learn those skills.

2.6.1.2 Diversification

Sustained business growth is one of the key challenges to the business leader. Diversification is one of a few answers to this problem. Researchers, however claim that most companies struggle to diversify profitably (Bishop, 1995; Porter, 1996; Zook, 2001a). Zook (2001a) points out that

90 percent of company's effort to diversify outside of their core business have failed over the past decade. His research show that diversification around the core business (concentric diversification) has a higher success rate than other approaches to diversification.

According to Porter (1996), companies erode their competitive advantage through poor diversification strategies. Thus, diversification often results in decay of the very competitive advantage that made the business successful in the first place. It would seem reasonable to expect that if a firm was able to maintain or manage its competitive advantage while diversifying, it would result in successful diversification. Recent studies have shown that diversification effect on performance remain inconclusive (Mukherji, 1998). According to Mukherji (1997), managers should examine whether a diversification move will allow them gain new competencies that can be applied to their existing business. Zook and Allen (2001) further suggest that management teams constantly meet with opportunities for diversification and that taking advantage of these opportunities is at times absolutely necessary in order to strengthen the core.

Diversification allows pay television companies to offer new services; internet, merchandising, sponsorships, rights trading, interactive and cross platform activities earning additional revenues. Channel four in the United Kingdom is considered to have pioneered multi-platform programming and interactive television (ITV). For example, Big brother 2 raised 5 million pounds in sponsorship from BT Cellnet and its voting lines raised 2.8 million pounds. Channel 4 International sells TV rights abroad, saw turnover up by 23% in 2000 to 23 million pounds. Channel 4 merchandising spin-offs made 2.2 million pounds in 2000. Horse racing channel linked to on-line betting enables broadcasters to tap into betting revenues interactively (Shooshan and Cave, 2002).

2.6.1.3 Vertical integration

Vertical integration means that a company is expanding its operations either backwards into an industry that provides inputs for company's products or forward into an industry that uses or distributes the company products. Vertical integration enables company to build barriers to new competition, facilitates investments in efficiency specialized assets, protects product quality and results in improved scheduling (Hill and Jones, 2004). It occurs when a firm produces its own inputs or owns its distribution channels. It is a critical component of corporate strategy, as it is often one of the first diversification strategies a firm considers (Harrigan, 1994). Integration is a natural response for a top manager who is looking for a means to incite organizational growth, gain scale economies, or attain a higher degree of control. The financial outcomes of vertical integration remain a contemporary issue, particularly in the drug, entertainment and healthcare industries, where integration may be used as a means to control hostile environments (Campbell, 1998; Karrer-Rueedi, 1997; Kreisky, 1995).

The vertical integration decision however has not resulted in predicted economic performance (D'Aven and Ravenscraft, 1994). Despite these uncertainties, executives have questioned the value of vertical integration largely due to the high cost and inflexibilities associated with it. This belief is mirrored in the business literature, which continues to suggest that outsourcing adds value to firms beyond that provided by vertical integration; yet vertical integration is still used as a business strategy (Kelley, 1995).

Vertical integration enables organizations to withhold its premium (sports and movies) channels from competitors (or platforms) or worsen the terms of supply to competitors, in order to weaken downstream competition between pay television companies to the benefit of its own downstream activities. Foreclosure of upstream section enables it to prevent rivals from successfully bidding for "key content" thus preserving organization own position of going forward (Chipty, 1994).

2.6.2 Market penetration

When a company concentrates on expanding its market share in the existing product markets, it's engaging in a strategy of market penetration. Market penetration involves heavy advertising to promote and build product differentiation. The thrust of advertising is to influence customer's brand choice and create a brand name reputation for the company and its products (Kotler, 1984). In this way the company can increase its market share by attracting the customers of its rivals. Because branded name products often command premium prices, building market share in this situation is very profitable.

In pay television market each percentage point increase in audience share represents percentage increase of advertising income, therefore an increase in market share have potentially a huge revenue boost. The various distribution platforms; cable, satellite, digital terrestrial (DTT), IPTV and the internet provides pay television companies the opportunity to increase their market shares. Even where multiple platforms are available consumers have varying preferences. They may refuse to install a satellite dish for aesthetic reasons or be influenced by additional services that are supplied (e.g. telephony, broadband access and mobile phone services). Thus even if the same channels were available in similar packages combinations and at equivalent prices on each platform, consumers are still likely to choose different platforms. Given this scenario pay television companies have the incentive to distribute its channels on other platforms in order to reach incremental subscribers.

2.6.3 Product and Platform Proliferation Strategy

According to Hill and Jones (2004), companies must commonly produce a wide range of products aimed at different market segments so that they have a broad product lines. Sometimes to reduce the threat of entry, they expand their range of products they offer to fill a wide variety of niches. This creates a barrier to entry because potential competitors will find it harder to break into an industry in which all the niches are filled. Pursuing a broad product lines to deter entry is known as product proliferation. The number of distribution platforms available to customers has expanded. Now there are five: cable, satellite, digital terrestrial (DTT), IPTV and the internet, with the availability of the last two becoming increasingly widespread. Even where multiple platforms are available customers have varying preferences. Pay television companies may choose to distribute their channel on all the available platforms to deter entry into the market. They can also provide several products for various niches to deter entry.

2.6.4 Market segmentation strategy

Companies pursuing this strategy tend to group customers based on important differences in their needs or preferences in order to gain competitive advantage. One principle way of grouping and segmenting subscribers in the pay television industry is by what the subscribers are able and willing to pay for a particular product (Kotler, 1984).

Pay television companies have to think strategically about which segments they are going to compete in and then how they will differentiate their products for each segment. The result of this choice determines a particular company's product range. If the right products are being made for the desired segments, the extra demand for the new products generate results in sales revenues that are more than the make-ups for increasing costs and profitability increases. A decision for a company to create more products for many market niches allow a company to satisfy a wider range of customer needs better. When prices for products are correct, subscribers demand for the products rises and generates more revenue than would be the case if the company offered just one product for the whole market (Kotler, 1984).

The other strategy that may be adopted by firms in a turbulent environment is the cost leadership strategy. To achieve overall cost leadership in an industry, a firm can adopt functional policies and resort to aggressive construction of efficient – scale facilities. This can be done through rehabilitation of the plants and machinery and new installation of the same, if necessary to enhance efficiency and cost reduction. Cost leadership can also be achieved through input sourcing from cheaper suppliers and also heavy up front capital investment in state-of –the –art equipment to reduce costs of customer service delays and minimize the cost of errors. Cost leadership will enable a firm to compete favourably through price cuts especially when dealing with customers who are price sensitive. Is the firm capable of producing the commodity or of rendering the service that it offers, at lower cost than its competitors without impairing the quality and suitability (of the product sold or of the service rendered) for its intended use? Cost leadership ensures survival of the firm especially in the process sensitive markets where it can gain mileage by selling at prices lower than the prevailing market price. (Marketing Intelligence, June 2000).

Porter (1980) further argues that a firm can also adopt a strategy of differentiating its product or service offering as a means of trying to create something that is perceived industry wide as being unique. Product uniqueness can be achieved, for example, through design and creation of innovative features. The firm can then carry massive campaigns emphasizing the product uniqueness, the various models/brands available so as to build a strong brand identification and great customer loyalty to defend itself against competitors' products. According to Abel (1980) product differentiation is the process of designing products to satisfy customer needs. A company develops a competitive advantage when it creates designs and supplies a product in a way that better satisfies customer needs than its rivals do and chooses the correct pricing option- the one that results in the level of demand that optimizes profitability.

Differentiated products appeal to viewers due to varied reasons: programming package, quality of programming, prestige or status. These differentiated products targeting different market segments can have different prices. In any price segment, pay television companies compete by producing programming with a level of differentiation that offers subscribers the most value for their money in the price range while still allowing them to make acceptable level of profit. Differentiation to be successful must be balanced against cost (Business Monthly December 2006).

2.7 Challenges of competition in a converged environment: Porter's 5-forces model

Porter's five forces of competition give an insight into competitive dynamics in an industry. It offers a richer view of the competition by capitalizing on the competition on the interrelationship of five powerful and dynamic forces. The degree of competition in an industry hinge on five forces: the threat of new entrants, the bargaining power of customers, the bargaining power of suppliers, the threat of substitute products or services (where applicable), and the jockeying among currents contestants. To establish a strategic agenda for dealing with these contending currents to grow despite them, a company must understand how they work in its industry and how they affect the company in its particular situation, Porter (1980).

The essence of strategy formulation is coping with competition. Moreover, in the fight for market share, competition is not manifested only in the other players. Rather, competition in an industry is rooted in its underlying economics, and competitive forces exists that go well beyond the established combatants in a particular industry. Customers, suppliers, potential entrants and substitute products are all competitors that may be more or less prominent or active depending on the industry. According to Porter (1980) the state of competition in an industry depends on five basic forces. The collective strength of these forces determines the ultimate profit potential of an industry. In the economists 'perfectly competitive' industry, jockeying for position is unbridled and entry to the industry very easy. This kind of industry structure offers the worst prospect for long run profitability. The weaker the forces collectively, however, the greater the opportunity for superior performance.

Threat of Entry

New entrants to an industry bring new capacity, the desire to gain market share and often substantial resources. Companies diversifying through acquisition into the industry from other markets often leverage their resources to cause a shape up; as Philip Morris did with Miller Beer. The seriousness of the threat of entry depends on the barriers present and on the reaction from existing competitors that the entrant can expect. If barriers to entry are high and newcomer can expect sharp retaliation from the entrenched competitors, obviously he will not pose a serious threat of entering. According to Porter (1980), Byrars et al, (1986) and Johnson and Scholes, (1994) there are six major sources of barriers to entry. These are: Economics of scales, switching costs, access to distribution channels, costs disadvantages independent of scale Government policy and entry deterring price.

Bargaining Power of Suppliers

Suppliers can exert bargaining power on participants in an industry by raising prices or reducing the quality of purchased goods and services. Powerful suppliers can thereby squeeze profitability out of an industry unable to recover cost increases in its own prices. Distribution and rights owning production companies such as Endemol, owners of Big Brother format, Planet 24, Hat Trick, Talk Back, Chary sales etc are very powerful. Their business involves high sunk and programming costs. These suppliers of content are very few and all the broadcasting companies are concentrating on them thus building up supplier's position and weakening their positions.

As a result many pay television companies who want to secure corporate future need to get into production and distribution. (Institute of Economic Affairs 2001). A more strategic response would be a cooperative game in which parties, explicitly or implicitly, work together to share the cost in the most efficient way possible. Programmers must realize that they must have carriage to survive and pay television companies must also realize that they must have quality programming to survive.

Bargaining power of buyers

Customers can force down prices demand higher quality or more services, and play competition off against each other – all at the expense of industry profit. The power of each the industry's important buyer groups depend on a number of characteristics of its market situation of its purchase from the industry compared with its overall business, (Porter, 1980).

Subscribers of multi-channel television are continuously asking for quality. Above all there is tension between the attention given to youth, up market audiences and universality principle. To attract more subscribers, because each percentage point of audience share represents increase in advertising income then the pay television companies must provide innovation, diversity and creativity in output. This is not easy and the process tends to shrink the profitability of industry.

Substitute Products

By placing a ceiling on prices it can charge, substitute products or services limit the potential of industry. Unless it can upgrade the quality of the product or differentiate it via marketing, the industry will suffer in earnings and possibly in growth. The more attractive the price performance trade offered by substitute products, the firmer the lid placed on the industry's profit potential.

The internet posses a great challenge for the multi-channel distributors. Most of programs for example premier league matches can now we watched via the internet at a nominal fee. Free broadcasting television companies in Kenya have consistently improved their broadcast quality and programming. They have a rich blend of local and foreign programming that has continued attract large viewer ship across the country. Most of these free broadcast stations are able to broadcast their programs all over the country thereby effectively substituting pay television services. Currently Kenya boast of more than ten free broadcast television companies.

Jockeying for Position

Rivalry among existing competitors takes the familiar form of jockeying for position – using tactics like price competition, product introduction and advertising sluglests. Since Gateway television was liquidated there has been less rivalry in the pay television sector due to a number of factors: competitors are few and are not equal in size and power. Multichoice Kenya is the largest, dominating the industry, switching costs are high. In an economy that continues to grow sluggishly and with rising inflation, poverty and unemployment the few individuals with pay television service lack the disposable income to continuously change from one content provider to the other. This locks in subscribers and protects content providers.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The research was a case study which aimed at providing an in-depth understanding of how Multichoice Kenya Limited has adapted/responded to changes in the environment due to convergence of information communications technologies. According to Yin (2003), case study is a strategy of investigating a phenomenon within its real life context. A case study is suitable for this research as it involves complete observation of a social unit emphasizing in-depth rather than breadth analysis.

3.2 Data collection

The study reviewed secondary and I collected primary data. Secondary data was obtained from existing records at Multichoice. This included strategic corporate plans, organization structure, researches and studies done by Multichoice (K) Limited. Primary data was collected by use of interview schedules which were self administered to Departmental Heads and middle level managers at Multichoice.

3.3 Data analysis

Data analysis was mainly qualitative as the primary data was analyzed using content analysis. Content analysis is a methodology is the study of content of communication. It is the analysis of recorded transcripts of interviews with participants. According to Neuendorf (2002) content analysis is an indepth analysis where qualitative techniques of scientific methods is used to analyse communication with participants

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter focuses on the presentation of findings. The organization in the study was Multichoice Kenya Limited. The findings are presented in a way of addressing the research objective.

4.2 Background Information

In this section the study sought to get the personal information from the respondents. These included information such as name, department in which the respondents worked, professional qualifications, designation and how long they have worked for Multichoice Kenya. The researcher managed to interview the managers mainly from the marketing and communication departments. The marketing manager had undergraduate and a master degree in Business Administration. The manager also indicated that he had a post graduate diploma in Marketing and is a member of the Marketing Society of Kenya. The marketing manager has been in the organization for about seven years. The study further established that the communications manager had a master degree in Business Administration. He has worked for Multichoice Kenya for more than 10 years.

4.3 Strategic Responses Adopted by Multichoice Kenya to Information and Communication Technologies

In this section the study sought to determine the strategic responses adopted by Multichoice to ICT convergence. The results of the study are presented in the subsequent sections.

4.3.1 Description of Level of Competition

Respondents were asked to describe the level of competition that is currently facing Multichoice Kenya. The respondents described the competition as fairly high emanating even from outside their traditional industry. This increased competition needed quick and appropriate strategic response. Asked to compare the level of competition with 10 years ago, it was evident that the organization enjoyed monopoly of the market as it was the main if not the only player in the Pay television industry. Today there are more than four pay television companies and some are joining. Even those firms that initially provided ISP (internet service provider) only, are today diversifying into pay-TV.

"The competition today is fairly stiff as the industry is getting crowded every other day and one may not know who in coming in and with what product, it is not easy to predict the business environment" (Manager 1).

4.3.2 Factors Considered Important for Survival of Multichoice Kenya

Respondents were asked to indicate the factors which they considered important for the survival of the organization. It was evident from the responses, most important factors for the survival of Multichoice Kenya in a turbulent business environment was profitability, market share leadership, customer satisfaction and public image. The respondents said that these factors will ensure that the organization retains it sustained competitive advantage.

"Profitability, market share, leadership, growth, subscriber satisfaction and public image are very important in situation where you encounter increasing competition. Without these it may be very difficult for the organization to remain relevant in this turbulent environment" (Manager 2).

4.3.3 Challenges and Opportunities Associated with ICT Convergence

It is true that convergence in ICT is posing a problem to ICT players. This is going by the unfolding events in the industry. For instance the rush to joining the industry due to lowering of entry barriers has seen the entry of the likes of Zuku offering cheaper bundled products. Initial impact of increased competition saw reduction in revenues, price wars, loss of subscribers, discounting and loss of programme rights. Competition for programme rights has enhanced the bargaining power of suppliers of programming thereby reducing profitability of Multichoice. Competition for programme rights has also seen Multichoice loose some programming rights to competitors. Upgrading machinery and equipment to match the technological shift has also affected its profitability.

"The biggest challenge that Multichoice Kenya has faced has been the reduction in profitability and loss of programmes rights. The prices of the programmes you will agree with me that due to increased demand has gone up while the increased supply in the market has forced some of Multichoice programmes down. This has had effects on Multichoice profits. We have even had to loose some of the rights of some programmes to our competitors for instance wrestling which is today a preserve of the local non pay televisions in Kenya" (Manager 2).

Respondents said that advertising revenues are decreasing because of emergence of alternative media like the mobile phones, websites emails, CD Databases and World Wide Web. The World Wide Web (WWW) is threatening the television industry due to the fact that many people today are advertising in the WWW which is cheap and a wide coverage of audience. People are able to download via the internet some of the programmes which were a preserve of the pay television. A lot of advertisements are today done in the internet and the mobile phone for instance Safaricom recently launched a product called classified where they do adverts.

"The internet and mobile telephony are taking over advertisement by and we are fast losing to them due to technological innovations. With these two it is true one would reach masses as compared to the case of pay television" (Manager 3)

Despite the challenges aforementioned, convergence has enabled Multichoice to use its single network to provide wider services at low cost generating higher revenues and reaching new subscribers in new markets. Increased competition has also had a positive impact in the sense that there has been increased awareness on pay television concept. Respondents said that their business has grown well over the same period and in fact better than the previous period. Multichoice Kenya experienced 20% growth in the last five years. Growth is directly proportional to increase in awareness and income levels. The organization now provides internet services which earlier on were a preserve of ISP providers such as Wananchi Online and Access Kenya among others only. Network convergence has enabled the organization to broadcast its programming on digital hand held mobile phones reaching thousands of mobile phone owners.

Typically ICT convergence empowers the organization to provide triple play service-telephone, video and internet services.

"We have grabbed the opportunity presented to us by the ICT convergence and today we provide a wide range of services at low costs while at the same time getting high returns. We have managed to diversify to provide internet services and even work together with Safaricom to broadcast our programmes" (Manager 3).

4.3.4 Reaction of Multichoice Kenya to ICT Convergence Challenges and Opportunities

Multichoice has reacted aggressively to these challenges and opportunities. They have emphasized the importance of goals. Respondents say that they have changed their long term planning in response to these challenges and opportunities. Long term plans are prepared annually and reviewed semi-annually. Due to the ever changing business environment Multichoice Kenya has adopted a strategy where it continuously monitors the environmental changes so as to make necessary adjustments as they occurred. Multichoice has had to establish a department of research that has been charged with the responsibility monitoring the business environment.

4.3.5 How Multichoice is affected by ICT Convergence

ICT convergence had brought about increased competition losing some of its long time faithful customers to its competitors. The study established that due to ICT convergence, Multichoice has had to diversify in order to remain afloat.

4.3.6 Turbulence in Business Environment Affected the Structure of Multichoice Kenya

Faced with turbulence in business environment, most organizations resort to restructuring as the first strategic response to the turbulence. The study established that Multichoice Kenya did restructuring but the most conspicuous was the hiring of Mr. Stephen Isabukia as the Managing Director of Multichoice Kenya. Mr. Isabukia is the first Kenyan to hold this position as the company wanted a local who understood the Kenya business environment. The appointment was aimed at consolidating the company's lead in the Pay-TV industry in Kenya.

"Due to the turbulence in the business environment in the recent past, the company decided to hire a local general manager who understood the business environment in Kenya who could consolidate the company's lead in the industry which was fast waning"(Manager 3).

4.3.7 Strategies Adopted by Multichoice Kenya

Respondents were asked to state the strategies that Multichoice Kenya has adopted in response to the challenges due to ICT convergence. The respondents said that on of the strategic responses adopted by Multichoice Kenya include:

Customer satisfaction

Respondents said that the organization has lived by its motto 'enriching life' by improving on the customer satisfaction profile through acquisition of high quality programming with both strong local and unmatched international content. They have developed quality range of products and channels for the whole family set-up. The organization has improved customer service through new telephone and billing systems. Expansion of its agents and installer networks to nine. They are linked to Nairobi via internet. Agents serve as collection points for subscriptions, and are Multichoice accredited installers and problem solvers.

"We have made sure that our customers get high quality and variety of affordable programmes. We have equally stepped up our customer services and billing system and have decentralised our services by empowering our agents who dab as the collectors of subscription, installers and provide solution to any problem" (Manager 1).

Strategic alliances

The study established that strategic alliances have been used to exploit the opportunities that ICT convergence presents. DSTV mobile will be provided through digital mobile television Kenya a company set up between Multichoice Kenya, Kenya Broadcasting Corporation (KBC) and leading mobile operator Safaricom. Safaricom subscribers can watch channels including supersports updates, BBC, CNN and cartoon network on their cell phones in Nairobi and it will reach Mombasa later this year. The system uses a technology called digital video broadcasting-handheld (DVB-H)

"We have formed alliances with other organizations for instance KBC and Safaricom to provide our esteemed customers with convenient mobile television"(Manager 3)

Price strategies

The study established that the organization adopted price strategies which included giving generous price discounts for decoders and setting relatively high subscription fees to enhance product image. Alternatively the company customers pay as little as Ksh 200 to access channels of quality digital broadcast after a hefty one-off installation price of Ksh 25000. DSTV has the lowest cost packages in the market.

"We intend to reach a wide range of customers and have therefore decided to lower the prices of decoders which were high for most of the customers but because we want to maintain quality, the subscription fee will remain. Easy views targeting mass market, consumers pay Ksh 200 after a hefty installation price of Ksh 25000 The latest cheap package is to demystify pay television as a rich people's product "(Manager 2)

Product strategies

Due to the turbulent business environment that was as a result of the ICT convergence, respondents said that the company adopted a strategy which was geared towards improving the quality of existing products (decoders and programming). New products have since been introduced and after sales service has been enhanced. The organization has increased their range of products to six the latest being DSTV access. All respondents said that that to maintain market leaders the organization has to continuously improve quality of existing products, introduce new products and offer excellent after sales service to its customers. The study established that Multichoice Kenya has adopted product proliferation strategy to reduce the threat of entry. Through research, they have expanded their range of products they offer to fill a wide variety of niches.

"We have subsidised the prices of decoders and are working to increase our range of products the latest being DSTV access. Through research we have managed to come up with programmes that suit every market niche" (Manager 2).

Distribution strategies

The study established that according to the responses, Multichoice Kenya has expanded its distribution channels. Respondents said that they have expanded their distribution agents and installer networks to nine.

"Multichoice has increased its distribution agents and accredited installers to nine"(Manager 3).

Promotion strategies

Respondents said that due to increased competition Multichoice Kenya has significantly increased its advertising expenditure to create new awareness to potential subscribers of its existing products and to position the unique features of their products in the minds of potential customers.

"We have intensified our awareness campaigns through the print media, bill boards, and any other means available"(Manager 2).

Vertical integration

The study results revealed that Multichoice Kenya spends huge funds in programme development. This enables them to withhold premium programmes from competitors or worsen the terms of supply. This has enabled them to remain the market leaders despite the competition it is facing. Five localized products have been commissioned for DSTV in the past-an East Africa drama series, a Kenyan musical series-Skika. a Mnet catwalk Kenya. Idols East and South Africa.

Market strategies

The study established that the organization has increased its focus on certain market segments. One principle way of segmenting subscribers is by what they are able and willing to pay for a particular product. After strategically segmenting the market, the organization has excelled in differentiating their products in each segment resulting in extra demand, generating high revenues and profitability. Advertising cost has increased to promote and build product differentiation. The thrust in advertising has influenced subscriber's brand choice hence expansion of its market share.

"We have managed to come up with a strategy where subscribers select only the product they want and this has worked so well for us. We have seen people asking for more and more Through advertisements we have also seen demand for certain products go up tremendously"(Manager 3).

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Personnel Strategies

The study established that Multichoice Kenya has realised the importance of its human capital ands have adopted personnel strategy as its competitive advantage. According to the respondents the organization has increased its attention on selection of highly qualified staff and increased training of their employees. Employee benefits/bonuses have tremendously been improved to motivate the employees and hence retain the talents.

"We only hire very highly skilled personnel who go through rigorous tests before hiring. Our employees are given handsome packages to motivate them and make them perform"(Manager 2).

Social responsibility

According to the results of the study Multichoice Kenya has considerably increased its sponsorship on various events. The organization according to the responses has excelled in assisting the less fortunate in the society and financed educational activities around the country. Environment, health and safety issues have taken a centre stage. This is an indication of their gratefulness to the society for continued support.

"Multichoice Kenya appreciates the contribution of its external environment and therefore participates in various activities that are geared towards giving back to the society such as financing educational activities, conservation of the environment such as tree planting among others. In support of African talent we even set up a training session in conjunction with Kenya

film commission and sent ten film makers to a workshop with some of the biggest Nollywood filmarkers. They come back and several of them have released films"(Manager 1).

4.3.8 Forms of Diversification Multichoice Kenya has been engaged in

The study sought to establish whether Multichoice Kenya had engaged in any form of diversification. According to the findings of the study, Multichoice Kenya today offers internet services to its Brodband customers. They also develop software both for use and sale. Merchandising of textile products thrive in various retail outlets like Woolsworth and other leading clothing outlets. The organization also engages in program rights trading, interactive and cross platform activities like the revolutionary Big Brother 3 earning additional revenues. Big brother 2 raised additional revenues in sponsorships and its voting lines.

4.3.9 Strategic Alliances

Digital mobile television Kenya is an alliance of Multichoice Kenya, Kenya Broadcasting Corporation and Safaricom who recently started to provide mobile television to their customers on a trial for one year before the consumers could start paying. The Company has also partnered with the IT industry to develop IT skills. The company has been able to build an enviable team of IT specialists that reflect Multichoice's support for employment. In 2008 Multichoice worked on a specific learnership programme with the IT Seta and took three of the learners for employment. The aim of this partnership is to provide training to address the shortage of the IT specialists. The company has also formed alliances with various leading clothing houses to retail its branded textile products. The organization is also in strategic alliance with Kenya film commission to develop filmmakers in Kenya.

"Multichoice Kenya has in conjuction with Seta been involved in learnership programmes aimed at imparting IT skills on the learners. Recently together with Safaricom, Nokia, and KBC we launched the mobile TV" (Manager 2).

4.3.10 Multichoice capability to match environmental turbulence

Multichoice has developed it capability to match the changes in its business environment and support the business strategies adopted Marketing, service delivery, finance, human resources and research and development functions have considerably been enhanced to anchor strategies adopted.

4.4 Rationale for Multichoice Kenya Strategic Responses

In this section the study sought to determine the fundamental correctness of the strategic responses by Multichoice Kenya Limited. The rationale is presented in the sections that follow.

4.4.1 Reduction in Revenue due to Increased Competition rationalized strategic response

Respondents were asked to state the extent to which the reduction in revenue had influenced the strategic responses adopted by Multichoice Kenya. Respondents indicated that the company had indeed started to realise drop in its revenue due to turbulence in its business environment as the competition became stiff with more entrants and therefore to a large extent, drop in revenue influenced the organizations responses to the convergence.

4.4.2 Extent Multi-Channel or New Channels rationalized Strategic Response

According to the study, respondents said that technological convergence enabled development of multi-channels. Multi-channels rationalized strategic responses that were aimed at increasing organizations audience share.

4.4.3 To exploit cross platform, cross media and interactive services

The study established that the cross platform, cross media and interactive services brought about by the ICT convergence, provided Multichoice Kenya with an opportunity. For instance, the Big brother link between main channels and the internet provided the organization with new source of income coming from several parts of the value chain.

4.4.4 Brand value

According to the results of the study, the turbulent business environment which was characterised by stiff competition called for brands that would stand the test of time, hence the rationale to develop strong brands that would help drive business.

4.4.5 Technology

Technological development, new media and platforms driving strategic response.

4.4.6 Underdevelopment

ICT Convergence has made major technological shifts in the broadcasting sector Multichoice cannot continue to rely on its old infrastructure to overcome threats and exploit opportunities that technological convergence provides. This underdevelopment rationalizes the strategic responses that the organization adopts.

CHAPTER FIVE: DISCUSSION, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter will discuss the main findings of the study and conclusions based on the research conducted in this research. The purpose of the conclusion is to address the research objectives. Each of the objectives will be addressed in separate sections. Finally, Recommendations for management and suggestion for future study are presented.

5.2 Summary

The overall purpose of the study was to determine the strategies adopted by Multichoice Kenya limited in response to ICT convergence. The first research objective was to determine the strategic responses adopted by Multichoice Kenya Limited due to ICT convergence. The second objective was to determine the rationale for Multichoice Kenya strategic responses.

The study established that the business environment in which Multichoice Kenya operated was described as very competitive. The initial reduction in revenues and profitability, loss of subscribers, price wars, increase in program costs and loss of programmes rights were the major challenges that Multichoice Kenya faced according to the study. The study established that Multichoice Kenya had lost advertising revenues to internet and mobile telephone. Despite the challenges, the convergence provided opportunity for Multichoice Kenya as it was able to provide a range of products at low costs and at the same time getting high returns. Increased competition created awareness to pay television service enabling the company to realize a 20% growth. The strategic responses due to ICT convergence adopted by Multichoice Kenya included customer satisfaction, strategic alliances, diversification, product distribution, promotional, vertical integration, market penetration, market segmentation, product development, product proliferation, corporate social responsibility and personnel strategies. Multichoice has also adjusted it capabilities accordingly to match the level of turbulence and support the adopted strategies.

5.3 Discussion

5.3.1 Strategic Responses Adopted by Multichoice Kenya Limited due to Convergence

From the results of the study it was evident that the competition was very stiff as compared to 10 years ago when Multichoice Kenya was a near monopolist. Due to ICT convergence with a single licence, organizations can today offer a wide range of services which once needed different licences and networks. The study established that due the ICT convergence today organizations which once offered only ISP for instance Wananchi online is today offering pay TV (Zuku). Increased competition has led to reduction in Multichoice Kenya's profitability due to high costs of programmes due to increased demand that increases the bargaining power of program suppliers. The organization according to the study has lost some of its long term subscribers to its competitors.

Multichoice Kenya according to the study has equally lost some of its programme rights to its competitors. A case in point is the programme rights of showing wrestling. Due to convergence the study established that Multichoice Kenya was fast realizing decline in its advertising revenue due to internet/www and the mobile telephone who are taking over this sector. For example Safaricom is today offering new product called Safaricom Classified where it advertises a range of products. According to the results of the study, it is nowadays easier for people to download programmes from the internet and therefore this posses a challenge to the pay TV which one owned the exclusive rights to show these programmes. Despite the challenges, the convergence provided opportunity for Multichoice Kenya as it was able to provide a range of products at low costs and at the same time getting high returns. These findings agree with Market Wire (2008) report that with the technical and market factors evolving, convergence has found significant traction with service broadcasters seeking increased revenues and cut cost of service provision. Competition also enhanced awareness that enabled the company to realize 20% growth in the last five years.

The study established that Multichoice Kenya has responded to the challenges and opportunities of ICT convergence by establishing a research department which has been mandated to advise the management of the new development and the possible way forward for decision making purposes regarding strategic responses to be taken. These findings agree with Cooper and Nation (2001) who pointed out that it is imperative that managers apply critical investigations into the realities of the changing environment through enlightened diagnosis of the problem it poses. It is only through research that this is possible and therefore Multichoice Kenya adoption of research to find out the behaviour of the market was prudent. The organization has therefore since substituted the long-term planning in response to challenges and opportunities. Long term plans are prepared annually and reviewed semi-annually. The study established that the organization has hired a local general manager the first one in the history of Multichoice Kenya, Mr. Isahukia who has a better knowledge of the Kenyan business environment.

The study established that Multichoice Kenya had responded to environmental turbulence brought about by ICT convergence by adopting a customer satisfaction strategy in which it sought to satisfy its customers by improving customer satisfaction profile through the acquisition of high quality programming with strong local and unmatched international content. The organization according to the results of the study increased its agent and installer network to nine. The study established that these agents were also given the mandate to solve the clients' problems in a bid to respond fast to customer complaints.

The study established that Multichoice Kenya also adopted strategic alliance in which it formed alliance with companies such as KBC and Safaricom to provide cell phone owners with the latest product, a resultant of ICT convergence which has made it possible for video on mobile telephone through a technology called digital video broadcast-handheld. Strategic alliances with leading clothe outlets has enabled Multichoice to retail its textile products generating extra revenues. The study findings support Stickland and Thomson (1993) who argued that strategic alliances are important for any firm which seeks to remain afloat. They add that alliances strengthen organizations to serve their existing markets and enter new industries. It is evident that by forming alliance with the KBC and Safaricom, Multichoice Kenya stands to gain as it will ward off its competitors and also be able to reach thousands of mobile phone owners consequently increasing its revenue. Pricing strategies were adopted to help demystify pay television as rich people product. DSTV once perceived as a luxury item is more accessible and affordable.

Multichoice Kenya according to the study adopted the product strategies. The product strategy was geared towards ensuring that the quality of the existing products (mainly decoders and programmes) was of high quality. The organization has also introduced new products into the market, the latest being the DSTV access. To date the organization through product development has raised its product number to six. According to the study results the organization has adopted product proliferation strategy which has ensured that all the niches in the market are served. These findings support Hill and Jones (2004) opinion that companies must produce a wide range of products to serve different market segments so as to broaden their product range. This may also be used as a strategy to reduce threats to entry, as the expansion of range of products fill the wide variety of niches which would have otherwise been used by competitors as all the niches are already filled.

According to the results of the study, the organization adopted the distribution strategy in a bid to ensure that the services reached all the customers promptly all over the country. It increased the number of distribution agents and the installation networks to nine. The agents are also mandated to solve the problems of the customers. The organization also adopted promotion strategy in which it invested a good percentage of its revenue on advertisement and promotional activities to create awareness to the potential subscribers of the existing products and to position the unique nature of their products in the minds of potential subscribers.

The study results revealed that the organization invests a lot of its resources in programme development as one of its strategic responses to the turbulence in the business environment. This has enhanced Multichoice Kenya to have a competitive advantage over its competitors as it has the ability to withhold premium programmes from its competitors, which has helped it to remain the market leader even in the turbulent business environment. These findings agree with Hill and Jones (2004) who argued that vertical integration enable companies to build barriers to new competition, facilitates investments in efficiency specialised assets, protect quality and results in improved scheduling. Other strategies used by the organization included personnel, where it hired highly skilled personnel and motivated them with relevant trainings and good packages to retain talents. Recruitment policy was tightened to put high academic and professional qualification as a requirement for consideration.

Regarding market initiatives, the strategic responses found were a change in the market segments served. The company was found to have identified new market segments in which they were focussing on in order to strengthen their overall market position. In the different market segments, Multichoice differentiated its products to a level that offers subscribers the most value for their money. Market penetration was also identified as a strategy to counter threat of new entrants.

Diversification enabled Multichoice Kenya to offer new services; merchandising, sponsorships, cross platform activities earning additional revenues.

Multichoice has taken social responsibility seriously. Firm has now focused on donations to the needy, sponsoring events, developing talents, environmental, health and safety issues are top on the agenda.

5.3.2 Rationale of Multichoice Kenya's Strategic Response

The study established that Multichoice Kenya adopted the strategies as a response to the challenges and opportunities posed ICT convergence were fundamentally correct. The initial decline in revenue and profitability due to increased competition necessitated the strategic responses to reverse the trend ICT convergence had provided Multichoice Kenya with an opportunity for cross platform, cross media and interactive services in which it has managed to link the main channels with the internet in the interactive Big Brother. Due to the strong competition, Multichoice Kenya has had to develop strong brands which can stand the test. This has enabled it to remain the market leader in the pay television industry.

The ICT convergence came with high-tech technologies and only organizations with the necessary infrastructure are viewed as developed. Multichoice Kenya could not continue to rely on old infrastructure but to invest in modern technology to overcome threats and exploit opportunities brought about by technological convergence.

5.4 Conclusion

The study established that due to ICT convergence Multichoice Kenya has witnessed turbulence in its business environment. The study reveals that the firm has made substantial adjustments in order to overcome challenges and exploit opportunities that ICT convergence presents. The strategies adopted are fundamentally in order. It is necessary that Multichoice Kenya be pro active rather than being reactive.

Since Multichoice is still feeling only the first tremors of seismic shift that convergence trends is unleashing in the electronic media business and society, its important that managers understand this so that to steer the organization to success. They should strive to avoid falling victims of strategic problems resulting from inability to properly adjust to their environment. Information gathering and processing systems are critical to the organization if it is to endeavour to make the best of the prevailing environmental conditions. This is the surest way of ensuring effective decision-making and being pro active all the times.

At all times it should be noted that environmental changes are not necessarily the worst. When pro-active strategies are put in place, they offer an excellent basic investment and reinvestment climate.

5.5 Recommendations

The study has established that though Multichoice Kenya has put measures to overcome the challenges and exploit opportunities posed by convergence in ICT, the study recommends that as a market leader, Multichoice need to employ platform proliferation strategy in Kenya to remain at the top of things.

Since there are five distribution platforms available to customers: cable, satellite, digital terrestrial, IPTV and internet. Multichoice should choose to distribute their channels on all the available platforms to deter entry into the market.

5.6 Suggestions for Future Research

The study therefore recommends that further studies on ICT convergence should be carried out in others sectors of the economy for instance telecommunication.

A study should be done to establish the strategic responses of free to air television stations to information and communications technology convergence.

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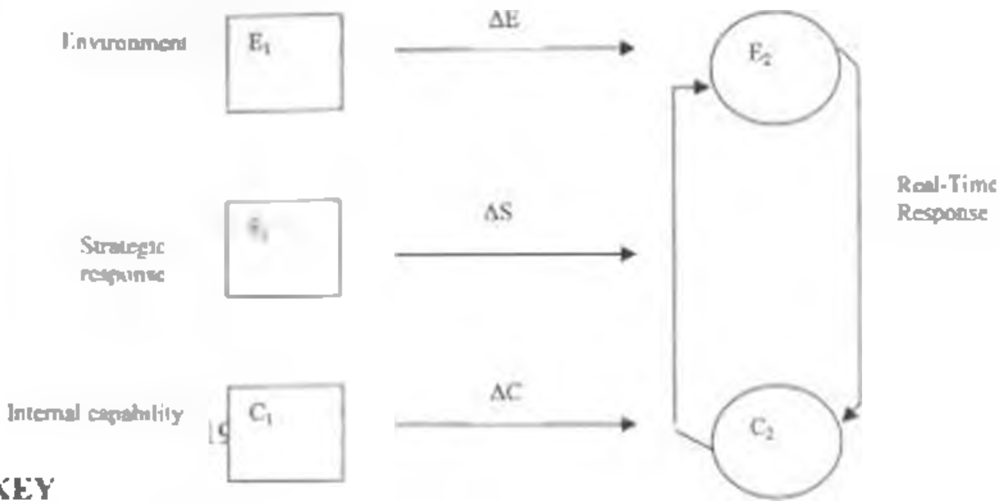
APPENDIX 1: Relationship between the Environment, Strategy and Internal Capacity



KEY

E1 – present environment

E2 – future environment

ΔE – Change in environment turbulence

S1 – current strategy

S2 – future strategy

ΔS – Change in strategy

C1 – present internal capability

C2 – future internal capability

AC – Change in internal capability

APPENDIX 2: LETTER OF INTRODUCTION

June 2009

Dear Sir/Madam,

REF: REQUEST FOR RESEARCH DATA

I am a Master of Business Administration (M.B.A.) student at University of Nairobi. I am required to submit as part of my course work assessment a research project report on **"Strategies adopted by Multichoice Kenya Limited in response to information and communications technologies convergence"**. To achieve this, your organization is the study. I kindly request you to grant me a chance to interview your departmental heads and middle level managers to generate data required for this study. This information will be used purely for academic purpose and your name will not be mentioned in the report. Findings of the study, shall upon request, be availed to you.

Your assistance and cooperation will be highly appreciated

Thank you in advance.

John Pius Onunga.

M.B.A. Student- Researcher

University of Nairobi

APPENDIX 3: INTERVIEW SCHEDULE

1. What is your name? ______________________________
2. Which department do you work? ______________________________
3. What is you professional qualification? ______________________________
4. What is your designation? ______________________________
5. How long have you worked for Multichoice Kenya? ______________________________
6. How would you describe the level of competition facing Multichoice Kenya now? ______________________________
7. How would you compare this competition with 10 years ago? ______________________________
8. In your opinion what is the contributing factor? ______________________________
9. What factors do you consider important for the survival of your organization? ______________________________
10. Convergence in ICT is posing challenges and opportunities to Multichoice Kenya, in your opinion, what are some of the challenges and opportunities associated with ICT convergence? ______________________________
11. How has Multichoice reacted to these problems? ______________________________
12. How has Multichoice Kenya been affected by ICT convergence? ______________________________
13. Has the turbulence in the business environment affected the structure of Multichoice Kenya in any way? ______________________________

14. What strategies has Multichoice Kenya adopted in response to challenges due to ICT convergence__________________________

15. a) To what extent did reduction in revenue rationalize strategic response by Multichoice Kenya? ____________________

    b) Multi-channels/new channels________________

    c) Brand values________________

    d) Technology________________

    e) Underdevelopment________________

16 Following the changes in the market, how has the following affected your organization?

    a) Loss of market share________________

    b) Loss of subscribers________________

    c) Decline in profits________________

    d) Loss of programs rights________________

17. How has these strategic responses benefited the organization? ________________

18. What forms of diversification have you engaged in?

19. What strategic alliances have you formed?

20. What else should multichoice do to remain both profitable and relevant in the market?

21. Does Multichoice have the necessary capability to match the external environment? es/No.

22. If NO, how can these capabilities be acquired?

Thank you.