

**COMPETITIVE STRATEGIES ADOPTED BY MOBILE PHONE
COMPANIES IN KENYA**

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DECLARATION

This project proposal is my original work and has not been submitted for a degree in this or any other University.

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Date

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rhis project has been submitted with my approval as university supervisor.

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Date



DEDICATION

This project paper is dedicated to my parents Mr.and Mrs.Kamande, to my husband Jidraph Muigai and to my daughter Casey Wahu whose prayers, support, love and encouragement I truly value.

I also dedicate it to my siblings Beth, Rachel, Peris and Kimani for the continued encouragement and support.

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ABSTRACT

The topic of this study is; Competitive Strategies Adopted by Mobile Phone Companies in Kenya. Competition has become the most important aspect that all the stakeholders in any industry need to be alert on if they are to make it and succeed. Organizations therefore have to continually assess the competitive environment in which they operate and also assess their own strategy. This also helps them to adopt winning strategies that ensures they perform very well in the industry.

Telecommunication industry in Kenya is quite lucrative but faces challenges just like any other industry. Some of the challenges that have greatly affected the growth of this sector include competition from new entrants, substitute products and services, political anxieties, technological advancement and globalization. The players in this industry have over time adopted dynamic strategies if only to survive. This study was to establish the competitive strategies adopted by mobile phone companies in Kenya.

The study has determined the sources of competition in the mobile phone industry in Kenya and also established the competitive strategies adopted by these companies to succeed.

This data was collected from the four mobile companies in Kenya namely Safaricom, Zain, Essar and Orange. The respondents were managers in the corporate strategy, marketing, retail, sales, risk, customer care, finance and technical departments who had been in the these companies for at least five years and were involved in the formulation and implementation of the strategies

The data was collected using interview guides that were sent to the respondents via email. The data collected was qualitative and was analyzed using content analysis. From the analysis, the mobile phone companies have adopted several strategies which include cost leadership, differentiation, marketing strategies, diversification, expansion, technology strategies, customer service and corporate social responsibly and according to the respondents, all of them have been successful to their companies.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The intensity of competition in an industry determines the degree to which a firm's investment drive returns to the market level ,and hence the ability of firms in that industry to sustain above average returns Porter (1980).The economic and technological characteristics of the industry determine the strength of the five basic competitive forces i.e. the threat of new entrants, bargaining power of buyers, bargaining power of suppliers, rivalry between existing competitors and the threat of substitute products. The main goal of competitive strategy in an organization is to be able to position itself where these competitive forces will do it the most good and least harm.

A company may therefore take a defensive approach towards this, in which case it positions itself in a way such that its capabilities provide the best defense against the existing competitive forces. Alternatively, it can take an offensive approach towards this by developing strategies designed to influence the balance of existing forces or to exploit a change in the competitive balance before rivals recognize it. The first step is therefore an assessment of the competitive environment in which the company operates and the second step is an assessment of the company's own strategy on how well it has positioned itself to prosper in its environment. The success of a company's competitive strategy depends on how it relates to its environment. Although the relevant environment is very broad, including social and also economic forces, the main aspect of the company's environment is the industry in which it operates, Ansoff (1987). This is because the industry structure has a strong influence in defining the rules of the competitive game as well as the strategies potentially available to the company. A winning competitive strategy is therefore founded on consistently understanding and predicting changing market conditions and customer needs.

1.1.1 Concept of Competitive Strategies

Strategy is the direction and scope of an organization over the long term, which achieves advantage through its configuration of resources within changing environments and fulfills stakeholders expectations, (Johnson and Scholes, 2003)

Porter (1998) described competitive strategy as taking offensive or defensive actions to create a defensible position in an industry, to cope successfully with the five competitive forces and thereby yield a superior return on investment for the firm. In the dynamic markets and technologies that companies and organizations operate today, there is great importance to have a sustainable competitive advantage.

Porter (1980) argued that operational effectiveness, though necessary for superior performance, is not sufficient because its techniques are easy to imitate. In contrast, the essence of strategy is choosing a unique and valuable position rooted in activities that are much more difficult to match. The main goal of a competitive strategy is therefore to achieve a sustainable competitive advantage over the other players in the industry.

Walker (2004) points out that in order to achieve competitive advantage, a firm must offer value to customers at a cost that produces economic performance superior to rivals. The firm must then defend this position from competition. He further concludes that the two major elements of competitive advantage are; positioning the product line more effectively than the competitors and defending the sources of this market position against rivals. The two most prominent sources of competitive advantage can be found in the business's cost structure and its ability to differentiate the business from its competitors (Pearce and Robinson, 2007).

1.1.2 Mobile Phone Industry in Kenya

The mobile phone industry in Kenya has come a long way to what we have today. Before 1998, all telecommunications in Kenya were controlled by the state-owned monopoly Kenya Posts and Telecommunications Corporation (KP&TC). In the year 1998, the Kenyan Parliament passed the Kenya Telecommunications Act as proposed by the Communication Commission of Kenya (CCK). CCK then set up Telkom Kenya in 1999. Mobile phone telephony in Kenya started in the year 2000 when both Kencell (rebranded as Celtel in 2004 and Zain in 2008) and Safaricom were launched on 5th May and 19th October respectively (www.cck.go.ke).

Safaricom, which started as a department of Kenya Posts & Telecommunications Corporation, launched operations in 1993. By the year 2000, Safaricom started operating in Kenya as a private limited company where 60% of their shares were held by Telkom Kenya Ltd and 40% were held by Vodaphone UK. In March 2008, 25% of the shares owned by Telkom Kenya were sold out to the Public, www.safaricom.co.ke.

Kencell Communications Ltd on the other hand, was a joint venture consisting of Vivendi Telecom International (a telecommunications operator in France) and Sameer Group (One of the largest business conglomerates in Kenya with strong and stable presence in various sectors of the Kenyan economy including agriculture, construction, banking and manufacturing (www.cck.go.ke)).

The two companies started off with a lot of competition right from the beginning with the great challenge of how to approach an unpredictable market with a very new service that had never been in Kenya. Safaricom's CEO, Michael Joseph chose to target the low income earners then while Kencell's then CEO chose the lucrative group in the market, (Mayaka, 2005).

This competition has continued all along with the two companies but Safaricom has been making very high profits, like they reported profits of Ksh 15.3 Billion before tax for the year ended 31st March 2009 with the active subscriber numbers having increased to 13.36m from 10.23million in the year 2008, an increase of 30.6% (www.safaricom.co.ke). Two more mobile telephony service providers have been launched lately, namely Orange and Essar (Branded as Yu). Essar, which for over four year's unsuccessfully tried to break into the Kenya telecommunication's market, was finally licensed to start its operation in Kenya in August 2008.

These four companies are currently competing seriously in an endeavor to get customers in the highly competitive industry.

1.2 Problem Statement

The business environment within which the mobile sector operates has been very volatile (Robinson, 2003). Political anxieties, competition from new entrants, social reforms,

technological advancement and globalization are some of the challenges that have greatly affected the growth of this sector. As such, it is very important for a company to establish a competitive advantage which is sustainable, meaning it is not easily eroded by environmental changes or imitated by existing and potential competitors, (Porter, 1980). Companies pursue competitive strategies to gain competitive advantage that allows them to out perform rivals and achieve average profitability. Developing a competitive strategy is essentially developing a broad formula of how the business is going to compete successfully in its industry.

Any business strategy should greatly emphasis on the improvement in the competitive position of the firm's products and services in the industry. Porter, (1998) emphasizes that competition is the core of the success or failure of firms and that every competing firm should have a competing strategy which will relate the firm to its environment.

Firms do not exist in a vacuum and are dependant on the environment. A firm's external environment will consist of all the conditions and forces that affect its strategic options and define its competitive situation. A dynamic environment will therefore mean that firms have to compete more intensely (Robinson, 1997).

Mobile telephony in Kenya is an industry that has been created by technological innovations and various studies have been conducted on this industry in Kenya. Maina (2001) carried out a research on perceived service quality and she found out that there is a significant difference between the customer expectations and the managements perception in this industry.

Towet (2002) conducted a study on perceived risks on the use of the mobile phone and found some of the perceived risks by the users as financial and social risks. Muturi (2004) conducted a survey on the factors that determine customer loyalty to mobile service providers and found out factors such as quality of customer service, reliability of the services, affordability of services and products, among others.

Ngobia (2004) on his research about the basis of competition in the mobile phone industry in Kenya found out that competition in the industry was crucial both for survival

of existing players as well as for long term sustainable and profitable existence of industry players.

Michieka (2008) studied the application of competitive strategies to the challenges of increased competition faced by Safaricom airtime dealers in Nairobi Central Business District and found that various strategies have been applied such as expansion, diversification, corporate social responsibilities, and joint ventures among others.

Many researchers have addressed various topics in this industry and in regard to strategy but none on the competitive strategies adopted by mobile phone companies in Kenya, mainly the key players; Safaricom, Zain, Orange and Yu.

This study will seek to establish the competitive strategies adopted by mobile phone companies in Kenya, which leads to the following research question: What are the competitive strategies adopted by the mobile phone companies in Kenya?

1.3 Research Objective

The broad objective of this study is to determine the competitive strategies adopted by mobile phone companies in Kenya. The specific objectives are as below;

- To determine the sources of competition in the mobile phone industry in Kenya.
- To establish the competitive strategies adopted by mobile phone companies in Kenya.
- To identify the most effective strategies employed by the players in this industry.

1.4 Relevance of the Study

The findings of the study may form a basis of further practical work to measure the extent to which mobile phone companies in Kenya have embraced strategic planning and disseminate the results to opinion formers and decision makers in that industry. A good understanding of this, is important to encourage these firms to continuously do an environmental analysis and develop strategic plans which will ensure better returns on investments.

1.5 Delimitation of the Study

Due to competition in the mobile phone industry in Kenya, this study may have limitations in regards to getting the information about the strategies that the companies have adopted. This is because this information may be viewed as very sensitive if accessed by the competitors.

1.6 Summary

This chapter was the introduction of this study and has looked at the history of mobile phone industry in Kenya. It has also looked at the background of competition and specifically in the case of this industry in Kenya. I have also come up with the statement of the problem, the research objectives, and the significance of the study and the limitations of this study.

CHAPTER TWO: LITERATURE REVIEW

2.1 The Concept of Competition

The concept of competition has played a major role in promoting economic efficiency among companies in any given industry. Over time, this concept has taken on different definitions and meanings. Stigler (1987) defines competition as "a rivalry between individuals, groups or nations and it arises whenever two or more parties strive for something that all cannot obtain." The intensity in competition is dependent on the customer structure and customer behavior (Porter, 1980). Competition is a dynamic process and is not a new concept (Ekelund and Hebert, 1981); it has been there as far back, and Smith (1776), Mill (1848) and Ricardo (1817), all contributed to its evolution. Machovec (1995) and Kirzner (1997) provide recent surveys of the dynamic interpretation of competition.

In the process of evaluating the effects of competition, Cournot (1838) pioneered the re-invention of competition as a market structure. Other contributions by Knight (1921) have reinforced, refined, and perfected Cournot's initial efforts. Stigler (1957) and McNulty (1968) provide excellent accounts of the historical evolution of the meaning of competition. As often happens, the original meaning of competition had largely been lost. Schumpeter (1942) envisions a dynamic world in which new products and technologies constantly drive out old products and technologies. It is possible to view Schumpeter's competition as a broader, deeper definition of quality competition. In his vision of competition, the kinds of competitive activities he deems most significant should be clear. In the long run, what separates the successful from the unsuccessful competitors is the ability to create, invent, and be innovative.

According to Cartwright (2002), competition is the main driving force leading marketers to search for areas of competitive advantage that will lead to greater financial success. He asserts that, new competitors are attracted to areas of opportunity. Over time, prices can be adjusted down-ward through competition and/or production efficiencies. New buyers join in buying the favored offerings. He further explains that, with every few exceptions,

all organizations face a degree of competition. There are still a number of monopolies i.e. organizations that have no competitors within their chosen market place.

Porter, (1998:3) argued that the intensity of competition in an industry is neither a matter of coincidence or bad luck, rather, the root of competition in any given industry is its underlying economic structure and this goes beyond the behavior of the current competitors.

2.2 Sources of Competition

According to Porter (1998) the sources of competition are as outlined below, in his five forces framework.

2.2.1 The Five Forces Framework by Porter

According to Porter (1998), the state of competition in an industry depends on five basic competitive forces, and these are; Threat of new entrants, bargaining power of buyers, bargaining power of sellers, rivalry among existing firms and the threat of substitute products and services.

2.2.1.1 Threat of new entrants

New entrants to an industry usually bring new capacity ,the desire to increase market share and often substantial resources .This in turn can bid down prices or inflate the incumbents costs which in turn can generally reduce profitability in the industry .The threat of entry into an industry depends largely on the barriers to entry that already exist and also with the reaction from existing competitors that the entrant can expect .If the barriers are high and/or the newcomer can expect sharp retaliation from the existing competitors ,the threat of entry in such a case is low.

Porter identified six major sources of barriers to entry; economies of scale, or decline in unit costs of the product, which force the entrant to enter on a large scale and risk a strong reaction from firms already existing in the industry, or accepting a disadvantage of costs if entering on a small scale .The second barrier is product differentiation which means that the established firms have brand identification and customer loyalties which may have resulted from past advertising, customer service, product differences or being

first into the industry .Differentiation therefore is a barrier as it forces entrants to spend heavily to overcome the existing customer loyalties.

The third barrier to entry is capital requirements .This is the need to invest large financial resources in order to compete in an industry .Large capital requirements creates a huge barrier to entry especially if the capital is required for risky or unrecoverable advertising or research and development. Switching costs or the cost that the buyer has to absorb to switch from one supplier's product to another may minimize entry into a given industry. Switching costs may include such as employee retraining costs, costs of new auxiliary equipment, need for new technical help, product redesign etc. If these costs are high, the new entrant must therefore offer a major improvement in cost or the performance of the particular product in order for the buyer to switch to the new product.

Access to distribution channels is the fifth barrier to entry into an industry .In the event that logical distribution channels for the products have already been served by the established firms, the new firm must persuade the channels to accept its products through price breaks, cooperative advertising allowances, promises of promotions etc which in turn reduce the profits. Existing firms may have very strong ties with the existing distribution channels as a result of long relationships and high quality services. This may therefore require the new entrant to establish a new channel which may be very expensive.

The last barrier according to Porter is cost disadvantages independent of scale. This is whereby established firms already have secret product technology, access to raw materials, favorable sites, and advantages in the form of government subsidies, and experience which makes it difficult to enter a given market. New entrants can also expect a barrier in the form of government policy through federal and state regulations and licensing. New firms expect retaliation from existing companies and also face changing barriers related to technology, strategic planning within the industry, and manpower and expertise problems. The entry deterring price or the existence of a prevailing price structure presents an additional challenge to a firm entering an established industry (Porter, 1991, and Littler, 1998) Porter's five forces model of (1980)

is criticized by Shrivastava (1986) as not taking in to account stakeholders well-being. He argues that it only attempts to maximize profits of the firm and is narrow in formulating success factors for senior managers.

2.2.1.2 Bargaining power of buyers

The buyer's power is of great significance in that they can force the prices down, demand for higher quality of products or services, and, worst of all; they can play competitors against one another especially in the pricing aspect, which is at the expense of the industry profitability. According to Porter in this framework, buyers exercise more power when they are large-volume buyers, when the product is a significant aspect of the their costs or purchases, when the products in the industry are standard or undifferentiated, when there are few changing or switching costs, when they earn low profits, when potential for backward integration of the buyer group exists and when the buyer has full information about supplier costs, demand and the market prices. The bargaining position of buyers changes with time and a companies (and industry's) competitive strategy (Porter, 1991, and Littler, 1998)

2.2.1.3 Bargaining power of suppliers

Suppliers can excise a great deal of bargaining power in an industry by threatening to raise prices or reducing the quality of products. This power in turn squeezes profitability out of an industry if it is unable to' recover these cost increases from its pricing. A supplier group exerts more power in an industry if it is dominated by a few companies, there are no substitute products for sale in the industry, if the industry is not an important customer for the suppliers, if their product is an essential input to the buyers business, if the supplier group's products are differentiated, and if forward integration potential of the supplier group exists. Labor supply can also influence the position of the suppliers. These factors are generally out of the control of the industry or company but strategy can alter the power of suppliers (Porter, 1991, and Littler, 1998).

2.2.1.4 Threat of substitute products and services.

A substitute product is one that can perform the same function as the product the industry already produces. Substitute products normally come as a result of industry competition, and to a great extent have an influence on profitability within the industry. Substitution of products and services may take different forms: there could be substitution of a need by new products or service rendering an existing product or service redundant or product for product substitution. Porter (1998) uses the example of security brokers, who increasingly face substitutes in the form of real estate, money-market funds, and insurance. According to Porter, substitutes that deserve most attention are those that are subject to trends that improve their price performance compared to the industry's product and those that are produced by industries earning high profits.

2.2.1.5 Rivalry among existing firms

Rivalries among existing firms in an industry normally develop naturally since they are competing for the same customers or rather in the same market. Porter (1998) points out that rivalry among existing competitors takes the form of jockeying for a position. Competitors use tactics such as price competition, advertising battles, introducing new and unique products and more attractive customer service and warranties, so as to enhance their standing and market share in a specific industry. Different actions as a result of this rivalry have different effects on the industry at large both good and bad. Price competition for example, leaves the whole industry worse off in terms of profitability while advertising battles on the other hand ,may expand demand or enhance product differentiation in the industry which is for the benefit of all the firms in that particular industry. In his opinion, the intensity of this rivalry is the result of factors like equally balanced companies, slow growth within an industry, high fixed or storage costs, lack of product differentiation, overcapacity and price-cutting, diverse competitors, high-stakes investment, and the high risk of industry exit.

Knowledge of the underlying sources of competitive pressure in an industry helps to highlight the critical strengths and weaknesses of a firm. According to Thompson, Strickland and Gamble (2007), evaluating a company's strengths and weaknesses and its

external opportunities and threats (SWOT analysis) provides a good overview of whether the company's overall situation is healthy or unhealthy. A good SWOT analysis provides the basis for crafting a strategy that capitalizes on the company's best opportunities and defends it against the threats to its well being.

2.3 Competitive Strategies

Porter (1998) described competitive strategy as taking offensive or defensive actions to create a defensible position in an industry, to cope successfully with the five competitive forces and thereby yield a superior return on investment for the firm. The dynamic markets and technologies in which company's and organizations operate today, there is great importance to have a sustainable competitive advantage.

Porter (1980) argued that operational effectiveness, though necessary for superior performance, is not sufficient because its techniques are easy to imitate. In contrast, the essence of strategy is choosing a unique and valuable position rooted in activities that are much more difficult to match. The main goal of a competitive strategy is therefore to achieve a sustainable competitive advantage over the other players in the industry.

Walker (2004) points out that in order to achieve competitive advantage, a firm must offer value to customers at a cost that produces economic performance superior to rivals. The firm must then defend this position from competition. He further concludes that the two major elements of competitive advantage are; positioning the product line more effectively than the competitors and defending the sources of this market position against rivals. The two most prominent sources of competitive advantage can be found in the business's cost structure and its ability to differentiate the business from its competitors (Pearce and Robinson, 2007).

Walker (2004) termed cost and differentiation advantages as positional advantages since they describe the firm's position in the industry as a leader in either cost or differentiation. Kombo (1997) argued that a competitive advantage enables the firm to create superior value for its customers and higher profits for itself.

Porter (1980) identified three generic strategies in coping with the five competitive forces. These are; overall cost leadership, differentiation and focus.

2.3.1 Cost leadership

Cost leadership requires aggressive construction of efficient scale facilities, vigorous cost reductions, overhead control, and minimization of costs in areas like Research and development, advertising and sales force etc. (Porter 1998). According to Pearce and Robinson (2009), business success built on cost leadership requires the business to be able to provide its products or services at a cost below what its competitors can achieve and it must be a sustainable cost advantage. In order for a business to achieve this, it must be able to accomplish one or more activities in its value chain for example procuring raw materials, processing them into products, marketing of the products and distributing them in a more cost effective manner than its competitors.

Pearce and Robinson (2009:249) illustrated ways in which businesses can achieve competitive advantage via cost leadership. These include such as process innovations which lowers production costs, safety training for employees which reduces absenteeism, downtime and accidents, reducing the levels of management which cuts corporate overhead and having long term contracts with suppliers who are able to supply at low prices.

A low cost position defends the firm against powerful buyers (Porter 1998:36). This is in the sense that, buyers can exert power only to drive down prices to the level of the next most efficient competitor and if the costs are low, the firm in question will still be better placed in profitability than its competitors. Low costs also provide defense against powerful suppliers by providing more flexibility to cope with input cost increases.

Factors that lead to a low cost position provide entry barriers in terms of economies of scale or cost advantages and the low cost position places the firm in a favorable position compared to its competitors.

Porter (1998) points out on various risks of the generic strategies. Cost leadership for example imposes a burden on the firm to continually keep up its position which means reinvesting in modern equipment, scrapping obsolete assets, being alert for technological improvement etc. Some of the risks associated with cost leadership are technological changes that nullify past investments and learning, imitation by new comers which can make them even lower costing, inflation in costs and placing too much attention on costs ignoring other changes e.g. product and market changes.

2.3.2 Differentiation

This is the strategy that seeks to build competitive advantage with its products or services by having it to different or unique from other available competitive products based on features, performance or other factors not directly related to cost and price(Pearce and Robinson 2009:250).

A successful business strategy allows the business to provide a product or service of perceived higher value to buyers at a "differentiation cost" below the "value premium" to the buyers. This in turn makes the buyers feel that the worth of the product is much more than the extra coin they are spending on it comparing with the price of other substitutes. Examples of ways in which businesses can achieve competitive advantage as illustrated by Pearce and Robinson (2009:251) include purchasing superior quality, well known components which raises the quality and image of the final product, carefully inspecting products at each step of production to improve the performance and reduce defect rate, ensuring timeliness in delivery to the customers and building the brand image through expensive informative advertising and promotion.

Porter (2009) points out that differentiation provides insulation against competitive rivalry because of brand royalty by customers and resulting lower sensitivity to the prices. This also creates entry barriers and increases the margins avoiding the need for a low cost position.

Risks of differentiation include such as; cost difference between low cost competitors and differentiated ones being too great and the buyers sacrifice some of the features of the

differentiated firm's products for large cost savings, buyers need for differentiation factor may fall and also imitation by competitors may narrow the perceived differentiation.

2.3.3 Focus

This is a strategy that applies a differentiation strategy approach or a low cost strategy or a combination and does it solely in a narrow (Focused) market niche rather than across the boarder market (Pearce and Robinson 2009).

According to Porter (1998) the focus strategy rests on the premise that the firm is able to serve its narrow strategic target more effectively and efficiently than those competitors who are competing broadly. As a result, the firm achieves either differentiation from meeting the needs of the target group better or lower costs in serving this target or both. The risk involved in focus strategy includes being at the mercy of powerful suppliers since such a firm will buy small quantities. The advantages of the focused strategy have to be carefully monitored because the market situation may change. Differences between segments may be eroded, leaving the organization open to much wider competition (Mathur, 1988).

Other risks of focus strategy include instances where the difference in costs between broad range competitors and the focused firm widens so much such that the cost advantage of serving a narrow target or to offset the differentiation achieved by focus. Competitors may also find sub markets within the strategic target and out do the firm that was there.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research design, target population, data collection method and data analysis which were used in this study.

3.2 Research Design

This was a census study, which was meant to identify the competitive strategies adopted by Mobile Phone Companies in Kenya. Mugenda (1999) agrees that this is an appropriate form of research, especially when the objective of the research is to gain insights into ideas, which is applicable in this case. A census study is also the most appropriate form of research whenever the population is small (Kothari, 1990).

3.3 Population of the Study

There are four mobile phone companies in Kenya, namely Safaricom Limited, Zain Kenya Limited, Essar Limited (YU) and Telkom Kenya limited, (www.cck.go.ke) and these were the target in this study. The respondents were corporate strategy managers, marketing managers, financial managers, managers in retail, risk, technical, sales and customer care managers who have been in the industry for at least five years and have been involved in the crafting and implementation of strategies in their respective organizations. The sample size comprised 32 respondents, 8 from each company to represent each of the above stated 8 departments.

3.4 Data Collection Method

In this study I used primary data, which was collected using an interview guide consisting of open ended questions. The interview guide was distributed to the respondents via email as the managers have access to email and internet facilities. The reason for selecting the email is because the costs are low; biasing error will be reduced as the respondents will not be influenced by the interviewer's characteristics or techniques. It also provided wide access to geographically dispersed respondents at low costs.

3.5 Data Analysis

The data analysis method was qualitative and involved content analysis of the findings. This analysis involved identifying specific wordings used by the respondents in the interview guides and these words were used to make conclusions in the study. The data collected was thereafter described depending of the findings of the study.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter covers the findings of the research and the data analysis. The respondents were corporate strategy managers, marketing managers, financial managers, managers in retail, risk, technical, sales and customer care managers who have been in the industry for at least five years and have been involved in the crafting and implementation of strategies in their respective organizations. Consequently, the collected data was analyzed and interpreted in line with the objectives of the study which are to determine the sources of competition in the mobile phone industry in Kenya, to establish the competitive strategies adopted by mobile phone companies in Kenya and to identify those that have been most successful in these companies.

Of the 32 questionnaires distributed for this research, 26 questionnaires were returned giving a response rate of 81.25 per cent, which was considered good for subsequent analysis.

4.2 Sources of Competition

The respondents brought out some of the main sources of competition that they feel have been facing this industry over time. These forces affect profitability of individual company and of the industry as a whole and are as below;

4.2.1 Threat of new entrants

From the respondents in this study of the four mobile phone companies in Kenya, the threat of new entrants has been a great source of competition. For a long time, Safaricom and Zain had been in operation and recently Orange and Yu have entered the market which according to the respondents, this was a great threat to the already existing companies. New players come in to the industry with new technologies, differentiated products and better customer service among others and this becomes a challenge to the existing firms if they are not able to march up to this standards. For example Yu came in with very low tariffs for voice calls and orange came with unlimited internet access bundles. These two have driven the prices of voice calls, sms and internet down among the four companies.

These new entrants also brought in the desire to increase market share which has also required substantial resources .According to Porter (1980) the threat of new entrants in turn can bid down prices or inflate the incumbents costs which in turn can generally reduce profitability in the industry .From my study this is what has happened in this industry where the threat of the new entrants has brought down the prices which has in turn reduced profitability.

4.2.2 Rivalry among existing firms

There is great rivalry in this mobile phone industry in Kenya as per the respondents in this study. This rivalry has come out in very aggressive price wars where each operator has been trying to under cut the others by lowering their prices for voice calls, sms and internet access. Very competitive prices have been fixed by the different operators in terms of bundles for sms bringing them down to up to 50 cts for Safaricom and Yu and ksh 1.00 for Zain and Orange. Internet access bundle prices have also been lowered by these companies going to levels of unlimited internet access within different bundles.Zain for example lowered the calling rates to Ksh 3.00 across networks and after that Safaricom and Yu also lowered their prices.

This rivalry has also been seen in from the advertising battles in this industry which has greatly intensified. Each of the companies is advertising their products and services intensely to the extent of tarnishing the image of the other players and discrediting each other in the industry. As per my respondents, these advertising battles are mainly between Safaricom and Zain.Zain, which has branded itself purple, advertises negatively in green which is the color of Safaricom and safaricom also plays greatly in the advertising battles as well as the others. These adverts are usually on bill boards, TV, radio and fliers. These battles also go to painting of various places just to advertise themselves and compete for the customers.

As per the respondents these battles have also been seen with the introduction of new and unique products where new services like Mpesa and Zap were introduced and they compete greatly. Each of these companies in trying its best to introduce the most unique products and services which bring a lot of rivalry for example the Safaricom's solar phone and mkesho service.

This rivalry has also been shown in customer service where the four companies are now going an extra mile to satisfy their customers. With the round the clock customer service for all of them offered through their call centers this has become very tough for all of them as they also implement the best customer management relationship systems to ensure excellent service and easier access to their customer services.

Rivalries among existing firms in an industry normally develop naturally since they are competing for the same customers or rather in the same market. Porter (1998) points out that rivalry among existing competitors takes the form of jockeying for a position. Competitors use tactics such as price competition, advertising battles, introducing new and unique products and more attractive customer service and warranties, so as to enhance their standing and market share in a specific industry. Different actions as a result of this rivalry have different effects on the industry at large both good and bad. Price competition for example, leaves the whole industry worse off in terms of profitability while advertising battles on the other hand, may expand demand or enhance product differentiation in the industry which is for the benefit of all the firms in that particular industry.

4.2.3 Threat of substitute products and services.

From the outcome of this study, the threat of substitute products has been a great source of competition in this industry. The main services in this industry are voice calls, sms, internet access and money transfer services and the products are handsets, phone accessories, internet modems, laptops and airtime which are all sold at their retail outlets. The four companies have managed to have all these products and services available for the customers. The greatest challenge on their parts is that all these are a substitute of each other; the prices are almost the same and their performance similar.

A substitute product is one that can perform the same function as the product the industry already produces. Substitute products normally come as a result of industry competition, and to a great extent have an influence on profitability within the industry. Substitution of products and services may take different forms: there could be substitution of a need by new products or service rendering an existing product or service redundant or product for product substitution. Porter (1998) uses the example of security brokers, who

increasingly face substitutes in the form of real estate, money-market funds, and insurance. According to Porter, substitutes that deserve most attention are those that are subject to trends that improve their price performance compared to the industry's product and those that are produced by industries earning high profits.

From the respondents, it has come out that the four mobile phone companies in Kenya are trying as much as possible to differentiate their products and services to make them unique so that a customer is not easily able to switch to another substitute. For example Safaricom has a solar phone for the low end users that can be used in areas that do not have access to power and therefore someone from such an area will opt for that. Zain has also differentiated its network to make it available in the most remote areas and also their network is excellent in terms of quality. From my study mobile phone voice calls have also other substitutes like voice over internet, Skype, call booths, Telkom wireless among others. Mobile phone internet usage also has substitutes such as cyber cafes, fixed data and Wimax (supported by fiber optic technology) and modems.

These companies have therefore been working at improving the quality of their services to avoid substitution by the customers in terms of quality of the network and its accessibility and also the internet speeds.

4.3 Competitive strategies adopted by mobile phone companies in Kenya

Porter (1998) described competitive strategy as taking offensive or defensive actions to create a defensible position in an industry, to cope successfully with the competitive forces and thereby yield a superior return on investment for the firm. The dynamic markets and technologies in which company's and organizations operate today, there is great importance to have a sustainable competitive advantage.

From the outcome of my study, the mobile phone industry has embraced competitive strategies in their day to day operations. Below are the competitive strategies that they have adopted over the last five years.

4.3.1 Cost leadership

The mobile phone companies in Kenya have been very keen in reducing the costs of their operations. From this study the four companies have adopted various moves to reduce costs on their end for example operating online to reduce on use of paper and now communication within is thorough emails and not paper, reducing the levels of management which cuts corporate overhead and having long term contracts with suppliers who are able to supply at low prices. They have also been marketing their products and distributing them in a more cost effective manner which is mainly through dealers and bill boards which can be seen by many people for a longer time. For example Safaricom, Yu and Orange have cost leadership as one of the key performance indicators for each department which also translates to individuals. Staffs are rewarded for coming up with ideas on how they can reduce on costs and this has been very succesful. In safaricom for example, they no longer use the expensive water tumblers, instead each staff was given a water bottle for using every day which has reduced on the daily purchasing of tumblers. In Orange and Safaricom transport for the staff is provided in shuttles and not the previous cabs that would carry one or two people. The shuttles can carry as many as 20 staff going to the same route which is very cheap for the company. Safaricom and Zain have also reduced the number of sales staff and branded the vehicles that are used by the engineers and sales and marketing staff to avoid paying for mileage and the vehicles are fueled at specific points depending on the need.

Each department in Yu, Orange, Zain and Safaricom is a cost centre on its own and aims at reducing costs in every way possible and this translates to reduced costs for the whole company as a whole.

This reduction in costs therefore enables the company to be able to sell their products and services at low prices to their customer.

Cost leadership requires aggressive construction of efficient scale facilities, vigorous cost reductions, overhead control, and minimization of costs in areas like Research and development, adverting and sales force etc. (Porter 1998).According to Pearce and Robinson (2009), business success built on cost leadership requires the business to be able to provide its products or services at a cost below what its competitors can achieve and it must be a sustainable cost advantage. In order for a business to achieve this, it must

be able to accomplish one or more activities in its value chain for example procuring raw materials, processing them into products, marketing of the products and distributing them in a more cost effective manner than its competitors.

4.3.2 Differentiation of products and services

This is the strategy that seeks to build competitive advantage with its products or services by having it to different or unique from other available competitive products based on features, performance or other factors not directly related to cost and price(Pearce and Robinson 2009:250).

From this study these mobile phone companies in Kenya have gone a long way in differentiating their products from each other. Starting with their network, they have been trying to differentiate it in every way possible. For example, Zain has invested heavily on their network making it clear and very good quality.Safaricom is still trying to expand its network. There for network, quality is key and also geographical coverage.

These companies have also been differentiating their products in terms of packaging and presentation where each has a distinct colour.For Safaricom; one identifies their products with green, Zain with pink and purple, Orange with color orange and YU with Black red and green.

They have also been differentiating their products in terms of the performance so as to attract the customers. For example in offering voice calls, they are all the same but for example Safaricom and Zain have royalty programs that besides the customer calling, they also earn points which they can later redeem for free talks time.Zain has also differentiated its voice calls by having the family and friends tariff which is very attractive to customer as they are able to call the most commonly called family and friends at lower rates.

In the internet usage for example, they have differentiated the service by means of speeds. All the four companies have been offering 3G network in various towns but right now Safaricom is in the process of launching the 4G network which will greatly differentiate the speeds of internet access.

Safaricom initially differentiated itself by having per second billing plan while Zain (Then Kencell) was using per minute billing which was quite expensive. As per my

study, this move greatly helped Safaricom and acted as an insulation against competitive rivalry because of brand royalty by customers.

Examples of ways in which businesses can achieve competitive advantage as illustrated by Pearce and Robinson (2009:251) include purchasing superior quality, well known components which raises the quality and image of the final product, carefully inspecting products at each step of production to improve the performance and reduce defect rate, ensuring timeliness in delivery to the customers and building the brand image through expensive informative advertising and promotion.

Safaricom being the market leader has also lead in differentiating its products and services for example in data they invested heavily in fixed data and customers pay an extra coin for this service as it cant compare with internet access for the competitors.

Porter (2009) points out that differentiation provides insulation against competitive rivalry because of brand royalty by customers and resulting lower sensitivity to the prices. This also creates entry barriers and increases the margins avoiding the need for a low cost position.

4.3.3 Marketing strategies

Marketing strategies normally focus on the prospects of the markets to be served by a particular organization (Kaplan and Norton, 2001).

As per the respondents, this has been one of the greatest strategies adopted by the mobile phone companies in Kenya. For all the four companies, it has taken different approaches all in the attempt to market themselves to the customers and trying to gain market share. These approaches include such as promotions like talk time promotions, sms promotions, internet access promotions, handset promotions, lap top promotions among others. These promotions awaken the customers as they all wanted to enjoy discounted rates that come with the promotions.

In marketing their products and services the mobile phone companies have also come up with loyalty programs that help with customer retention. There is the bonga reward scheme for Safaricom and the rewards scheme for Zain and the two companies are really marketing themselves through them. Customers are able to redeem their points to get talk time, sms, data bundles, handsets and laptops.

The mobile phone industry in Kenya is characterized by many products with similar quality, price and service. The four companies in their ever-increasing need to differentiate themselves and their products are turning to the use of cause related marketing as a communications tool. This entails firms' communicating through their advertising, packaging, and promotions.

This marketing strategy is also being done by the four companies through their retail shops and the dealers and they also run open days where customers are able to go and get demonstrations on how to use the technical products and services. From the study, these open days are open with Safaricom.

From the study, Zain has also been marketing itself with media sponsorship through the Zain Africa challenge program that is aired on KTN television. This is a way of marketing themselves to their customers.

4.3.4 Customer service strategy

Customer service refers to those activities that occur at the interface between the customer and the corporation which enhance or facilitate the sale and use of the corporation's products and services (Londe and Zinser) 1976.

From the outcome of this study, the four mobile phone companies in Kenya have adopted this strategy greatly as they realize that they need to take steps to improve customer satisfaction and give their clients a reason to stay with them. This has been demonstrated by the way they have all set up call centers and care centers (shops) to cater for the satisfaction of their customers. In all the call centers, they have been working on increasing the staff and optimizing the services that these call centre staff are offering the customers. They have also put in place improved customer relations management systems to help assist the customers in the best way possible. These systems have services like an IVR system (Interactive Voice response) where a customer can be helped first hand without having to speak to a customer care representative. This has been implemented by Zain and Orange. These companies have also improved on the accessibility of their customer service lines and also opened their shops in various remote areas in the country. From this study all Safaricom, Yu and orange have CDI (Customer delight index) as one of their key performance indicators that goes into the performance of every individual in those companies. Customers are called by independent parties and their satisfaction

evaluated on the various products and services offered. This is a good indication that they are keen on serving and satisfying their customers.

According to Londe and Zinser (1976) customer service is considered to be a vital concept with the potential to bridge the gap between the ever-expanding customer demands for flexibility (faster, more customized, more reliable, and choicer) and, at the same time, the need to reduce production and distribution costs. By bridging this gap a sustainable competitive advantage can be achieved. According to Innis & Londe (1994) customers with lower levels of satisfaction usually aren't repeat buyers and are more likely to switch to the competitors. It's crucial then that a firm takes steps to improve customer satisfaction and give their clients a reason to stay with them. After all, the cost of acquiring new customers is significantly higher than developing new business with existing clients. It therefore makes good business sense to get to know customers well and better satisfy their needs.

4.3.5 Diversification Strategy

According to Johnson & Scholes (2002) diversification is a strategy which takes the organization away from its current market or products or competences. Firms diversify themselves by establishing or acquiring production units or systems that engage in different activities. It is thus an expansion of corporate activity either into areas that are closely related to a general line of business, or into new directions for the organization.

From this study, there has been a lot of diversification in the mobile phone industry in Kenya. When this industry was starting out with Safaricom and Kencell in the year 2000 the main focus was on voice calls and short message service (SMS). This has taken a different direction over the last few years with the companies diversifying their scope of business. According to the respondents, this diversification is evidenced by the way the companies entered into providing data and internet services to their customers. This has brought in a lot of profitability to them and it was a totally different direction of this business yet very profitable. Because of this, they have invested heavily in data services and they are now selling internet connectivity modems, data bundles and laptops which is a good source of revenue and profits.

There has also been diversification into the money transfer business with Safaricom, Zain and Yu starting the Mpesa, Zap and Yu cash respectively which according to the study have contributed greatly to the profitability of these companies.

Gort (1962) argues that the prospective return on investment is a function of growth and that firms in slow-growing sectors should be expected to diversify into faster-growing sectors for increased profitability and this has been the case with the mobile phone industries in Kenya.

4.3.6 Technology strategies

Patch (1988) defined technology strategy as a portfolio of choices and plans that a company uses to address the technological threats and opportunities in its external environment.

Rieck and Dickson (1993) defined it as the process by which firms utilize their technological resources to achieve corporate objectives while Hampson and Tatum (1997) defined it in a firm's perspective which includes plans and actions to anticipate and acquire technology that can improve performance.

In this study, the mobile phone companies in Kenya have embraced and adopted the technology strategy. This is seen especially in the data and internet services which have come through a lot of technological advancements.

Safaricom for example invested heavily in the fiber optic cables for cheaper and better internet speeds and is selling their data widely to corporate customers and individuals through this technology. This is in the form of fixed data services that are also offered by Zain Kenya and also Orange. Safaricom is also in the process of launching its 4G network that will make internet services extremely good and with very high speeds.

4.3.7 Expansion strategy

This is a strategy that has also been very important in the mobile phone industry in Kenya. From the respondents, expansion has been seen to be in the form of expanding the range of products and services, expanding the retail and customer care centers all over the country and also widening the distribution channels for all the four companies.

In the range of services, these companies, they now have voice services, sms, internet services, fax and data services, email solution services and money transfer services.

In the range of products they now have at the retail outlets mobile handsets, mobile phone accessories, data modems, internet access routers and laptops.

The retail centers have also been increased greatly by all the four players in the industry with Safaricom leading with 25 outlets, Zain with 16, Orange with 10 and Yu with 4 retail shops.

According to Porter (1998), capacity expansion is one of the most significant strategic decisions faced by firms and it is measured both in terms of the amount of capital involved and the complexity of the decision making problem,

4.3.8 Focus Strategy

This is a strategy that applies a differentiation strategy approach or a low cost strategy or a combination and does it solely in a narrow (Focused) market niche rather than across the boarder market (Pearce and Robinson 2009).

In this study the focus strategy has been in use with some of the companies but its not commonly used. It involves providing products and services that are suitable to various groups either differentiated or sold at lower prices. For example Safaricom and Zain have unlimited data services for the corporate customers and discounted calling rates for some corporate customers depending on the numbers that those companies are giving them.

For the pre paid services Safaricom and Zain from time to time come up with promotions for specific geographical area especially those that have many customers to encourage more and more calls. An example of this is the "Bei ya campus" and "Bei ya Masaaku" by Safaricom which was giving discounted rates for callers with university of Nairobi and Kenyatta university and Machakos respectively.

4.3.9 Corporate social responsibility

This is a strategy where organizations give back to the society in various ways and places like in hospitals, schools, various development projects to orphanages among others.

This strategy has been used by the mobile phone companies in Kenya for a long time and as indicated by the respondents they have helped the companies in their profitability as they make them popular by the day.

Safaricom for example has the Safaricom foundation which is the section that is concerned with corporate social responsibility and Zain has their social investment program commonly known as CSR which is also the case with Orange and Yu.

Through these programs they reach out to Kenyans who are needy in times of drought, they help the orphans and the people with disabilities just to help them and this helps to market the company very well. They also help with various environmental programs like planting trees

4.4 The most successful strategies in the Kenyan mobile phone industry

The respondents were able to narrow down to the most successful strategies in their companies within the last five years. They considered them successful depending on their contribution to the organizations revenues and profitability over time.

These strategies are as listed below;

- a) Cost leadership
- b) Product differentiation
- c) Marketing strategies
- d) Technology strategies
- e) Expansion strategies
- f) Customer service
- g) Diversification strategies.

CHAPTER FIVE: SUMMARY AND CONCLUSIONS

5.1 Summary and Conclusions

The first objective of this study was to determine the sources of competition in the mobile phone industry in Kenya.

The study indicated that there are various sources of competition facing the four mobile phone companies in Kenya. The main sources of this competition are the threat of net entrants, great rivalry among the players and the threat of substitute products. New entrants in the industry are seen to come in with new innovative products, cheaper rates for customers, new ideas and technology among others which highly causes a lot of competition in the industry and existing firms have to position themselves in a way to cope with such so as to maintain their market share and profitability as well. Competitive rivalry among these companies is also a great source of competition that they always have to deal with. Each of these companies are watching each other very carefully and doing every thing possible to come out shinning and ensure that their rivals are down. This rivalry has come out in the form of price wars, advertising battles, new competitive products among others and therefore each of the companies has to be alert all the time and keeping up with the competition. These companies are also faced with competition from substitute products. The products and services are similar but each player is always working to differentiating theirs so that customers can prefer them to those of competitors. This is one of the greatest challenges they have, so as to make sure that customers prefer one product other than the other yet the services received are all the same. Faced with all the competition and rivalry, the mobile phone companies in Kenya have had to adopt certain strategies so as to succeed in this industry.

The second aim of this study was therefore to establish the competitive strategies adopted by mobile phone companies in Kenya. The strategies that were given by the respondents and that are adopted to a great extent included cost leadership, differentiation of the products, marketing strategies, technology strategies, diversification strategies, customer care, expansion and corporate social responsibility strategies.

The companies have embraced cost cutting in their organizations in all possible ways so as to reduce on the costs of operations and this enables them to sell their products and services at lower rates which helps to increase their sales. Differentiation is also used to a

great extent by these companies so as to try and gain increased market share and profitability. Porter (2009) points out that differentiation provides insulation against competitive rivalry because of brand loyalty by customers and resulting lower sensitivity to the prices. This also creates entry barriers and increases the margins avoiding the need for a low cost position.

Marketing strategies have also been adopted to a great extent by the players in this industry as they all try to out shine the other. From the respondents, this has been through many promotions, aggressive advertising, and loyalty programs among others.

The companies have also greatly adopted the technology strategy as a way to stay update with technological advancements in this industry and keep up with customer needs. This has been seen especially in the data and internet services which have come through a lot of technological advancements including the fiber optic cable that has made internet more accessible, affordable and with faster speeds.

Expansion is also another strategy that has been adopted greatly by the players in this industry. From the respondents, expansion has been seen to be in the form of expanding the range of products and services, expanding the retail and customer care centers all over the country and also widening the distribution channels for all the four companies. This has helped these companies to gain a customer base and also market share.

These companies have also adopted the diversification strategy where according to the respondents, this diversification is evidenced by the way the companies entered into providing data, internet services and money transfer services to their customers. Other strategies that have been used are customer care and corporate social responsibility and from the research findings of the study it was concluded that all the above discussed strategies have been adopted have been successful in the mobile phone companies in Kenya.

5.2. Limitations of the study

A major limitation to the study was that I had difficulties getting adequate explanations from some of the managers as they thought that I was collecting information on behalf of their competitors. Others cited tight work schedules and hence could not give in depth information about the strategies they have adopted.

5.3. Recommendations for further study

I recommend that a study be conducted on the challenges of implementation of the competitive strategies adopted by mobile phone companies in Kenya. This would help find out how they have managed to adopt these successful strategies and also help to identify why other strategies have not been successful in this industry. Such challenges if identified can be addressed at a the corporate level of the organizations so as to make it easier to implement these and more strategies in future as the market place is becoming more dynamic and competitive.

5.4 Implications of the study for policy and practice

The government through Communication Commission of Kenya (CCK) should develop a policy to deal with the negative advertising that is being done by the mobile phone companies in Kenya. Most of this advertising is aimed at discrediting and tarnishing each other and may also be misleading to the customers. This area should be regulated and each organization should advertise their products based on their quality, functionality, service and rates but not based on those of other competitors. This will help to bring out healthy competition as much as the rivalry is still there.

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APPENDICES

APPENDIX 1:LETTER TO RESPONDENTS

P.O Box 18074-00100

Nairobi,

8/9/2010

Dear Sir/Madam,

RE: REQUEST FOR RESEARCH DATA

I am a final year postgraduate student in the Faculty of Commerce, University of Nairobi majoring in Strategic Management. I am undertaking a research on the competitive strategies adopted by mobile phone companies in Kenya.

In order to undertake the research, you have been selected to form part of my study. This is therefore to request your assistance in filling the attached interview guide as truthfully as you can. The information required is needed purely for academic purpose and will be treated in strict confidence. Even where a name has been provided, it will not under any circumstances appear in the final report.

Your assistance and co-operation will be highly appreciated

Yours sincerely,

Winnie Kamande

APPENDIX 2: QUESTIONNAIRE

Instructions; Fill in the blank spaces and tick where appropriate

PART ONE: BACKGROUND OF THE COMPANY

1. Name of the company:

2. Year of Establishment:

3. Position of the respondent in the organization

4. How long have you been with the organization?

- 3 years and below []
- 3-5 years []
- 5-7 years []
- over 7 years []

5. Ownership (kindly tick one below):

- Privately owned
- Wholly owned by the government []
- Owned partly by the government and partly privately

PART TWO: CHALLENGES OF INCREASED COMPETITION

For questions 6-10 please give a brief explanation to the questions.

6. Briefly describe the state of competition in the mobile phone industry in Kenya in terms

a) Pricing of products and services

b) Advertising

c) Marketing of their products and services

d) Packaging and presentation of the products and services

e) Differentiation of the products and services

f) Customer service

g) Innovativeness and technological advancements

7 Briefly comment on the state of rivalry in the mobile phone industry in Kenya in terms of;

a) Price wars

b) Advertising battles

c) Introduction of new and unique products

d) Customer service and warranties

8. List the factors that have contributed to customers preferring your products and services over those of your competitors.

a)

b)

c)

d)

e)

f)

9. Apart from using your mobile phone, indicate how else you can make a call to another person.

10. What other options can you use to access the internet apart from your mobile phone?

a)

b)

c)

SECTION THREE: COMPETITIVE STRATEGIES ADOPTED

This section is to identify the competitive strategies that have been adopted by your company over the last 5 years.

11. List and briefly explain the competitive strategies that have been adopted by your company in the last five years.

a)

b)

c)

d)

e)

f)

g)

h)

i)

12. Among the competitive strategies listed above, please list those that have been most successful in your organization.

a)

b)

c)

d)

e)

0

Thank you.