COMPETITIVE STRATEGIES ADOPTED BY SMALL AND MEDIUM SIZED HORTICULTURAL EXPORTING COMPANIES IN NAIROBI

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DECLARATION

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

Signature …………………………………….. Date ……………………………….

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

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DEDICATION

T o my parents John and Alice Elia, who taught me the importance of education. And to my wife Njeri, and daughters Nditi and Bobos for their patience, encouragement and support during the entire MBA study.

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ABSTRACT

Competitive strategies arise out of the need for organisations to position themselves to exploit opportunities and handle threats in the environment. This is geared to giving an organisation competitive advantage over its rivals and firms in the horticultural exporting sector are no exempt. Over the last decade the agricultural industry in Kenya has generally experienced low and declining productivity in terms of export earnings, employment creation, food security and household farm income. This is not the case in the Horticultural export sub sector where growth noted has arisen from continual growth and expansion of the small and medium (SME) sized companies which have not only expanded the Kenyan market abroad but also provided employment and supported the various sub sectors involved in the chain from growing to export.

Despite this positive growth, the horticulture export business's future does not appear bright due to influx of many small exporters, increased competition from other upcoming countries especially those nearer the traditional markets of Europe, introduction of stringent new quality standards and legal requirements. This is in addition to the existing financial and technical barriers to the industry's SME's in upgrading their product lines and management systems given their limited resources. The study was conducted with the objective of determining the competitive strategies adopted by SME's in the horticultural export industry in Kenya and the challenges these firms faced in development and implementation of these strategies. It was conducted by a survey of the SME's in the horticultural export industry located in Nairobi and data collection was through a semi structured questionnaire.

Research findings revealed that all the firms were aware of the need and indeed 62.5 % had a documented competitive strategy in management and running of their businesses. The most critical strategies used were those fostering quality and superb customer service (95% of respondents). Cost advantage was not seen by many as a sustainable competitive strategy as margins were already very slim in the industry with the many players both locally and globally. Differentiation was attained to a moderate extend with a mean of 3.3 out of 5 using this strategy. This could be attributed to the homogenous nature of products traded. Many of the players focused on particular markets (Mean of 3.8 out of 5)and concentrated on giving those markets their best within possible reach to maintain and grow their businesses. Challenges faced by many of the firms were similar with capital requirements (96%) and rapidly changing market requirements (88%) ranking at the top. Reduced industry profitability also posed a great challenge while government support was not well appreciated and policy makers need to prioritise this to foster growth in such a vital sector.

The Research focused only on SME's in the horticultural export sector and further research can be done to determine strategies adopted and challenges facing the industry as whole. Another area of interest would be how current strategic decisions are influenced by the existing external environment and challenges of determining the fit between an organisation's strategies and its external and internal environmental factors. This knowledge pool would contribute significantly to success of the horticultural sub sector and in turn growth of the Kenyan economy as a whole.

TABLE OF CONTENTS

LIST OF TABLES

CHAPTER ONE: INTRODUCTION

1.1 Background

Competitiveness is at the core of the success or failure of firms. It determines the appropriateness of a firm's activities that can contribute to its performance, such as innovations, a cohesive culture, or good implementation. Competitive strategy is the search for a favourable competitive position in an industry, the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition. (Porter 1985)

1.1.1 Competitiveness in Organizations

Developing competitiveness consists of moves to; attract customers, withstand competitive pressures and strengthen an organization's market position. Hax and Majluf (1996) view the concept as positioning of the organization in its environment, responding to external opportunities and threats, internal strengths and weaknesses in order to achieve a sustainable competitive advantage over key competitors of the firm in every business in which it operates.

This response leads a company to have a competitive advantage over its rivals... This alone is however not enough and the competitive advantage gained must be sustainable for the company in order to yield long term benefit. Sources of competitive advantage include high quality products, superior customer service and achieving lower costs than rivals if this can be maintained for a long period.

Competitive advantage is built on competitive strategies that increase the loyalty of customers and beats competitors. According to Porter (1980, 1985) and Porter and Millar (1985), a firm develops its business strategies in order to obtain competitive advantage over its competitors. Porter's framework popularly known as the five forces model is one approach to understanding industry competition and economists and other scholars too have different models for analyzing industry competition. Porters model is however the most popular and relevant for open market economies and he establishes the five primary forces that determine the competitiveness and competition in an industry as the threat of new entrants, rivalry among existing firms within an industry, the threat of substitute products or services, the bargaining power of suppliers, and finally the bargaining power of buyers.

A company assesses these five competitive forces in a given industry, then tries to develop the market at those points where the forces are weak (Porter, 1980). It positions itself so as to be least vulnerable to competitive forces while exploiting its unique advantage (cost leadership). A company can also achieve competitive advantage by altering the competitive forces. E.g. firms establish barriers to deter new entrants from coming into an industry by cultivating unique or capital-intensive resources that new firms cannot easily duplicate. Firms also increase bargaining power over their customers and suppliers by increasing their customers' switching costs and decreasing their own costs for switching suppliers. The five competitive forces model provides a solid base for developing business strategies that generate strategic opportunities.

In his study, Porter (1998) reemphasized the importance of analyzing the five competitive forces in developing strategies for competitive advantage: "Although some have argued that today's rapid pace of technological change makes industry analysis less valuable, the opposite is true. Analyzing the forces illuminates an industry's fundamental attractiveness, exposes the underlying drivers of average industry profitability, and provides insight into how profitability will evolve in the future. The five competitive forces still determine profitability even if suppliers, channels, or competitors change.

For Small and medium sized horticultural companies in Kenya characterized by limited resources it is highly imperative to focus on gaining competitive advantage to enable them respond to, and compete effectively in the market. By identifying their core competences, the companies are able to concentrate on areas that give them a lead over competitors, and provide competitive advantage. According to Johnson and Scholes (2003), core competences are more robust and difficult to imitate because they relate to the management of linkages within the organization's value chain and to linkages into the supply and distribution chains.

1.1.2 Small and Medium Enterprises

The terms informal, micro, cottage, small, and medium enterprises are commonly used in small and medium enterprise literature internationally. Gichira (1991) defines informal as those enterprises, whose owners do not usually conform to the regulations governing normal business activities like business registration, tax payment, observance of wage regulations and contribution to workers' social security funds.

Billetoft (1996) and a report prepared by the International Development Research Centre (IDRC) in 1993, however, caution against the use of informal or formal and opt for classification based on the number of workers which a firm engages on a full-time basis as the primary criterion for grouping enterprises.

EU Member States traditionally have their own definition of what constitutes an SME. Germany had a limit of 250 employees, while for Belgium it has been 100. But now the EU has started to standardize the concept which categorizes companies with fewer than 10 employees as "micro", those with fewer than 50 employees as "small", and those with fewer than 250 as "medium with an annual turnover not exceeding 50 million euro (Commission Recommendation 2003/361 EC, 2003).According to the 1999 national baseline survey (CBS, ICEG & K REP, 1999) in Kenya, SME's are enterprises employing 10- 100 employees. There is no universal definition of SME and this has often been considered an obstacle for business studies and market research. According to the horticultural exporters association- Fresh Produce Exporters Association of Kenya (FPEAK), small and medium sized exporters are those with a turnover above Kshs 50 Million and not exceeding Kshs 250 Million per year.

The emphasis of the study on SME's is because of the inherent potential in this sector. The 1999 national baseline survey found that there are about 1.3 Million SME's country wide employing some 2.3 million people up from 910000 enterprises in 1993 (CBS/ICEG/KREP, 1999). They formed 80% of businesses in Kenya and accounted for 20% of the gross domestic product (GOK, 2004- 2005). The SME sector is therefore not only a provider of goods but also a driver in promoting competition and innovation and enhancing enterprise culture which is necessary for private sector.In general terms and depending on the country, SME's contribute between 15 to 50 % of exports and between 20 and 80% of SME's are active exporters (Ramsurun and Dalrymple, 2000). Overall it is estimated that SME's contribute between 25% and 35% of world exports (Cormier, 1997).

In the Kenyan Horticultural context it is in this sector that many local entrepreneurs have pursued business opportunities and currently command approx 25% of the business and growing which is a significant percentage of the industry according to HCDA statistics. And now an industry that had been the preserve of a few some 15 short years back has many small and medium sized players competing against not just the big players but other countries for the market which is mainly Europe and the Middle East and expanding into other parts of the world.
Since the health and Vitality of SME's is so critical to the growth of the Kenyan economy, their development should be a priority of economic policy. Building up the competitive edge of exporting companies, particularly SME's can pay rich dividends in the long run both at the national and enterprise level (Keng and Jiuan, 1989)

1.1.3 Vegetable and Fruit Export in Kenya

The growth of the Kenyan fruit and vegetable sector has expanded in fits and starts, with numerous changes in the commodity mix, the role of the state, the types of marketing institutions and the characteristics of the participating farmers. Around 1974, Kenyan fruit and vegetable production and exports began to grow more rapidly. Overall, fruit and vegetable exports rose to US$ 95 million in 1990 or 8.0 percent per year in real terms over the period 1974-90. Whereas fruits and vegetables accounted for about 3 percent of agricultural export earnings in the 1960s and early 1970s, by 1990 its contribution had reached 14 percent.

Horticultural crops have become Kenya's main agricultural export. Horticulture exports have grown rapidly in recent years, exceeding coffee exports in 1999 and tea in 2003. Sales are mainly to Europe, accounting for 95% of fresh produce exports. Horticulture has increasingly become one of the major foreign exchange earners of Kenya contributing 23% of total export earnings in 2005 with quantities of exported fruit increasing from 13.9 million to 18.5 million kgs and vegetables from 28.5 million to 63.4 million kgs between 1995 to 2005. (Economic survey, 2005). Export value of horticultural crops and products increased by almost 25% in 2004 compared to 2003 and exports more than doubled since 2001. (HDC, 2007).

Marketing of horticultural products has generally been free of direct government interventions. With the exception of onions, the government has not been directly involved in the pricing or performance of physical functions of horticultural marketing. (Kimweli, 1991). The remarkable performance of the industry has been ascribed to this policy, which engendered autonomy in production and marketing decisions thus fostering significant local private initiatives and dynamism within the industry. Horticultural Crops Development Authority (HCDA) was established in 1967 charged with the responsibility of promoting the development of horticultural crops, licensing exporters, and disseminating information on horticultural marketing.

There are some 10 companies, which controlled 90% of the fresh vegetable and fruit exports from Kenya 15 years ago according to HCDA statistics selling mainly to UK Supermarkets. These supermarket chains have been leading in imposing strict measures regarding pesticide usage, product handling, worker’s health and safety, social safety and environmental awareness and safety among others This though making the food safer is deemed to have a negative influence, especially given the expected speed of implementation and low profit margins in the industry (HCDA, 2005). In 2008 30% of horticultural export volumes were done by small and medium sized firms with many products that were seen as logistically viable for the big players constituting a good volume of the SME exports. Products like avocado which required a heavy initial capital investment were among those that several SME’s engaged in opting to hire packing facilities from the big players, (HCDA 2008).

As the Kenyan economy continues to grow there is an obvious need to expand business transactions with the rest of the world and the horticultural sector has played a significant role. This has gone on to become the largest foreign exchange earner for Kenya edging past tea, coffee and tourism which was recently adversely affected by the post election violence of early 2008. The fruit and vegetable sector the other is considerably less sophisticated with many of the products currently being grown extensively across the country by small and medium scale farmers mainly as a result of the market opportunity provided by small and medium sized exporters.

1.2 Statement of the Problem

Competition in an industry continually works to drive down the rate of return on invested capital. It exerts pressure on companies to be proactive and to formulate successful strategies that facilitate proactive response to anticipated and actual changes in the competitive environment. In this development of strategy, managers are concerned with reconciling the business the organization is in with the availability of resources. This allocation process is concerned with the general purposes of an organization. Whether it is part of the grand plan, the overall objectives of a strategy is to keep the organization in business (Hannagan, 2005).

In the horticultural industry, increased competition threatens the attractiveness of the industry and reduces the profitability of players in the sector. SME's account for about 30 % of this business and growing with many local African entrepreneurs joining a field previously dominated by Asian and White businessmen. In the 2003 Kenya Economic survey employment in the SME sector which had stood at 4.2 million in 2000 increased to 5.1 million in 2002 accounting for 74.2 % of the total persons engaged in employment.The horticulture sector has had its fair share of contribution in this aspect being the fastest growing sector and this mainly attributable to Small and Medium sized company growth.

The horticulture industry is highly competitive not just from other players within but also from exporters in other countries. The distance of Kenya from the market is also not favourable with countries closer to Europe, E.g. Egypt and Morocco paying cheaper rates to transport their goods to the market. This is also coupled with strict quality demands by the consumers and especially with regard to food safety and phytosanitary requirements e.g. Eurep Gap, that are costly to attain and maintain. Fluctuating currency exchange rates also make it difficult to determine prices and profit expected not to mention the unpredictability of weather under which most crops are grown. In a changing world with a depressed world economy many factors keep on changing and there are many mergers and collaborations making organizations larger and larger to enable them weather the challenges that face them. To survive in a competitive environment requires firms to be astute and learn how to not only maintain their market share but expand as well. The study aims to establish competitive strategies adopted by SME's in this sector and the challenges they face in implementing these strategies. Aspects can be borrowed to other sectors of the economy especially in areas difficult to penetrate and seen as the preserve of a few.

Previous research has been done on competitive strategies. Kiwara (2007) evaluated the competitive strategies adopted by commercial banks in Muranga town while Kariuki (2006) studied the competitive strategies and performance of five star hotels in Nairobi concluding that strategy adopted was the key basis of performance and hence could not be ignored and that contrary to popular belief price/cost advantage was not even a preffered method in this industry. Awuor (2006) did a survey of manufacturing based strategies for small and medium scale enterprises in the food processing industry in Nairobi and established adoption of those that brought competitive advantage as a priority for the firms that wanted to survive. Were (2006) studied the Asian vegetable sector of horticulture only recommending further study in the entire high profit return export sector in order to contribute to revision of general policies in horticulture. Nkukuu (2006) focused on the determinants of credit facility demand as one of the challenges in the industry. Even though the context may have been different insight has been picked from these studies with reference to the concept and overally this study will focus on small and medium sized vegetable and fruit exporting companies and the competitive strategies they adopt to survive and grow in business.

Research questions will revolve around the competitive strategies adopted by small and medium sized exporting companies in the horticulture industry in Kenya. It shall also investigate the challenges these firms face in development and implementation of these strategies.

1. 3 Objective of the study

i. To establish competitive strategies adopted by small and medium sized horticultural exporting companies in Kenya.

ii. To determine the challenges faced by these firms in development and implementation of these strategies

1.4 Significance of the study

This research is aimed at determining the competitive strategies adopted by small and medium sized vegetable and fruit exporting companies in Kenya. The study is invaluable to the various stakeholders in the horticulture industry. For scholars the study will provide information on competitive strategies among small and medium sized vegetable and fruit exporting companies in Kenya. This will expand their knowledge on strategic responses in the sector and as well identify areas of further study. Policy makers will obtain knowledge of the horticulture export sector dynamics and the responses that are appropriate. They will obtain guidance from this study in designing appropriate policies that will regulate the sector

SME's Management will identify the competitive challenges that affect the operations of small and medium sized vegetable and fruit exporting companies in Kenya as well as determining the extent to which these environmental factors affect their operations. This helps them determine ways in which these exporting companies can respond to increased competition as well identify the impediments that face them in responding to increased competition.

CHAPTER TWO: LITERATURE REVIEW

2.1 Overview of Competition

Competition in economics is referred to as the rivalry in supplying or acquiring an economic service or good. Environment refers to causes or factors external to an organisation that affect the organisation's operations. The forces pose opportunities and threats to the organisation as it endeavours to achieve its objectives and the organisation must utilise its strengths and work on its weaknesses in order to survive. Increased competition threatens the attractiveness of an industry and reduces the profitability of its players. It exerts pressure on firms to be proactive and to formulate strategies that facilitate proactive response to anticipated and actual changes in the competitive environment.

Competition is the key to excellence and companies that rely on stability, obedient customers, dependent suppliers and low competition are inviting inertia and ultimately, failure. Competitiveness of a company is its ability to compete and prosper in the market place and can be thought of as a measure of productivity or the efficiency and effectiveness of converting inputs and resources into useful products and services. Competitive strategy analyses the core competencies and capabilities of a firm vis a vis the competition and the customer needs so as to select the firms position in order to survive and compete successfully. All value is derived from the customer and firms need to delve deep into how to create this value.

Firms respond to competition in different ways. By identifying their core competencies, firms are able to concentrate on areas that provide competitive advantage and give them a lead over competitors. Johnson and Scholes (2003) indicate that core competencies are more robust and difficult to imitate because they relate to the management of linkages within organisations value chain and to linkages into supply and distribution chains. Long term success however demands the creation of ever more powerful systems that are steadily being improved. It involves the effective management of all resources available at the heart of which are people in the organisation who alone have the capacity to build new abilities with time (Upton, 1999). Some firms opt to product development, divestiture and diversification, entry into new markets or even merging or buying out competitors.

The global and local fresh produce business environment has drastically changed resulting in some of the big local exporters opening up operations across borders to tap into any existing leverages that could give them a competitive edge. This has practically led to an increase in competition from other countries and therefore a disadvantage to the small and medium sized operations that do not have the resources to do likewise.

2.2 The Concept of Competitive Advantage

A company has competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces (Thompson & Strickland, 2002). The ability of a firm to command a competitive advantage depends on the sustainability of the competitive advantages that they command.

Sustainable competitive advantage is born out of core competencies that yield long term benefit to the company. Prahalad and Hamel (1990) define a core competence as an area of specialised expertise that is the result of harmonizing complex streams of technology and work activity. They further explain that a core competence has three characteristics: It provides access to a wide variety of markets, it increases perceived customer benefits and it is hard for competitors to imitate. To succeed in building a sustainable competitive advantage, a firm must try to provide what buyers will, perceive as superior value. This entails either a good quality product at a low price, or a better quality product that is worth paying more for.

Thompson & Strickland, (2002) argue that competitive advantage enjoyed by a firm has a three stage life cycle consisting of: build up period where strategic moves are successful in producing competitive advantage. Then there is the benefit period where fruits of competitive advantage are enjoyed. A long benefit period gives the firm sufficient time to earn above average profits and recoup on investments made to create the advantages. Erosion period then follows where the competitive advantage held by the firm is eroded due to imitation, duplication, new technology and attacks by rivals.

2.3 Competitive Strategies.

Competitive strategy consists of all those moves and approaches that a firm has and is taking to attract buyers, withstand competitive pressure and improve its market position (Thompson & Strickland, 2002). Drucker (1969) defined strategy as the pattern of major objectives, purposes or goals and essential policies or plans for achieving these goals, stated in such a way as to define what business the company is in or to be in and the kind of company it is or is to be. A competitive strategy is narrower in scope than a business strategy and concerns what a firm is doing in order to gain a sustainable competitive advantage. Boseman and Phatak (1989) argued that for a firm to remain vibrant and successful in the long run, it must make strategic decisions that take into account the impact the external environment has on its operations.

Strategy is a match between an organization’s resources and skills and the environmental opportunities and risks it faces, and the purpose it wishes to accomplish (Hofer and Schendel, 1979). Strategy is a useful tool in helping managers tackle daily problems that organizations face and offers significant help for coping with turbulence confronting many firms (Aosa 1998).Whether it is part of the grand plan, the overall objectives or a strategy are designed to keep the organization in business (Hannagan, 2002)

Drucker (1969) noted that management is primarily about the continuing development of the organization and its employees. The demands and needs of the environment are constantly evolving and management is about adjusting the company according to the needs and demands of the environment.

According to Porter (1998), at the broadest level there are three internally consistent generic strategies for creating a defendable position in the long run and outperforming competitors in an industry. These can be used singly or in combination and include:

a) Striving to be the overall low cost producer, i.e. low cost leadership strategy

b) Seeking to differentiate one's product offering from that of its rivals, i.e. differentiation strategy
c) Focus on a narrow portion of the market, i.e. focus or niche strategy.

To effectively implement any of these strategies requires heavy commitment and supportive organizational structures.

2.3.1 Overall Cost Leadership

An emphasis on competitive methods that results in a cost leadership strategic position appears to be the primary basis for achieving superior performance in the horticultural export industry. This conclusion supports one route to the development of a strategic position identified by Miller (1992) and Bharadwaj et al. (1993).

Low cost leadership is based on lower overall costs than competitors. Firms that achieve low cost leadership generally make low cost relative to competitors the theme of their business strategy and stress on efficient scale of operation The firm opens up a sustainable cost advantage over competitors and uses that lower cost as a basis for either under pricing the competitors and gaining a larger market share at their expense or earning a higher profit margin by selling at the going price. This requires the firm to be better than its rivals on efficiency, cost control, efficient scale facilities and continuously seek creative and innovative ways of cutting costs through experience and tight controls and cost minimization in areas like R&D, service, sales force and advertising. Successful low cost producers achieve cost advantages by exhaustively pursuing and maintaining cost savings throughout the activity cost chain. Johnson and Scholes (2003) maintain that this strategy seeks to achieve a lower price than competitors whilst trying to maintain similar value.

Firms often drive their cost lower through investments in efficient-scale facilities, overhead control, and cost minimizations in such areas as service, selling and advertising (Porter, 1980). They often sell no-frills, standardise products to the most typical customers in the industry. Thus, the primary thing for a firm seeking competitively valuable way by reducing cost is to concentrate on maintaining efficiency through all activities in order to effectively control every expense and find new sources of potential cost reduction. When a firm designs, produces, and sells a comparable product more efficiently than its competitors and its market scope is industry-wide, it means that the firm is carrying out the cost leadership strategy successfully

A low cost position protects a firm against all five competitive forces. Rivalry from competitors can be achieved in that because of its lower costs it will still earn returns after competitors have burned away their profits through rivalry. Defense against powerful suppliers is by providing more flexibility to cope with input cost increases while for powerful buyers it’s by the fact that buyers can only exert power to drive down prices to the level of the lowest efficient competitor who is the firm in this case. The combination of factors that lead to the lowest cost position e.g. experience and crafted economies of scale provide substantial entry barriers while at the same time the lowest cost puts the firm in the most favourable position against substitutes relative to its competitors in the industry. A low price strategy can only be pursued with a low cost base and this must also be protected from easy imitation by competitors to be of value.

2.3.2 Differentiation Strategy

With the differentiation strategy, the unique attributes or perceptions of uniqueness and characteristics of a firm's product other than cost provide value to customers. The firm pursuing differentiation seeks to be unique in its industry along some dimension that is valued by customers, which means investing in product R&D and marketing (Porter, 1980).

It is the ability to sell its differentiated product at a price that exceeds what was spent to produce it and can be differentiated in various ways. Unusual features, responsive customer service, rapid product innovations and technological leadership, perceived prestige and status, different tastes, and engineering design and performance are examples of approaches to differentiation (Porter, 1980). Rather than cost reduction, a firm using differentiation needs to concentrate on investing in and developing such things that are distinguishable and customers will perceive to be of great value.

Overall, the essential success factors of differentiation in terms of strategy implementation is to develop and maintain innovativeness, creativeness, and organizational learning within a firm (Ireland et al,2001; Porter, 1985).Successful differentiation is based on a study of buyers' needs and behaviour in order to learn what they consider important and valuable. The desired features are then incorporated into the product to encourage buyer preference for the product. The basis for competitive advantage is a product whose attributes differ significantly from rivals' products. Competitive advantage results when buyers become strongly attached to these incorporated attributes and this allows the firm to charge a premium price for its product, benefit from more sales as more buyers choose the product and more buyers become attached to the differentiating features resulting in greater loyalty to its brand.

Differentiation if achieved is a viable strategy for earning above average returns as it creates a position to cope with the five competitive forces. Porter (1998) asserts that differentiation efforts results in customer loyalty and the need for a competitor to overcome uniqueness. This Porter contends is because differentiation provides some buffer against rivals' strategies because buyers become loyal to the brand and they are willing to pay a premium price. It erects entry barriers in the form of customer loyalty and creates a uniqueness that new entrants find hard to overcome. Differentiation mitigates buyer power by the lack of near alternatives and the same for suppliers as they don't have other buyers of the unique firm's demands while the higher returns give the firm enough muscle to deal with supplier power as well.

Most often differentiation may not mean achieving high market share. It mainly implies a trade off with cost position if the activities required in creating it are inherently costly, such as extensive research, high quality materials, product design or even intensive customer support. Profitable differentiation is achieved by either keeping the cost of differentiation below the price premium that the differentiating features command, or by offsetting the lower profit margins through more sales volumes. Kotler (2001) insists that anything that a firm can do to create buyer value represents a potential basis for differentiation. Once it finds a good source of buyer value, it must build the value, creating attributes into its products at an acceptable cost. These attributes may raise the product's performance or make it more economical to use. Differentiation possibilities can grow out of functions performed anywhere in the activity cost chain and produces an attractive and sustainable competitive advantage especially where it is based on technical superiority, high quality, customer support services and more value for money.

2.3.3 Focus Strategy

Porter (1998) contends that focus is a generic strategy focusing on a particular buyer group, segment of the product line, or geographical market. The entire focus strategy rests on the premise that the firm is thus able to serve its narrow strategic target more effectively and efficiently than competitors who are competing more broadly. As a result the firm achieves either differentiation from better meeting the needs of the particular target, or lower costs in servicing this target or both.

As with differentiation, focus may take many forms. Focusing begins by selecting a market niche where buyers have distinctive preferences. The niche is defined by geographical uniqueness, specialized requirements in using the product or by special attributes that appeal to members. The focuser's basis for competitive advantage is either lower costs than competitors serving that market segment or an ability to offer niche members something different from competitors.
A focus strategy based on low cost depends on there being a buyer segment whose needs are less costly to satisfy than the rest of the market. On the other hand, a focus strategy based on differentiation depends on there being a buyer segment that demands unique product attributes.

Focus strategy involves a trade off between profitability and sales volume. Like the differentiation strategy, it may or may not involve a trade off with overall cost position.

2.3.4 Stuck in the Middle

Overall cost leadership, differentiation and focus strategies are alternative, viable approaches gaining competitive advantage and dealing with competitive forces and are not necessarily compatible with one another. If a firm attempts to gain advantage on all fronts, in this attempt it may achieve no advantage at all. A firm may be unable to develop a fundamentally clear strategy in any of the three directions and end up with a futile strategy that is a recipe for failure - stuck in the middle (Porter, 1980). Such a firm lacks the market share, capital investment and resolves to play the low cost game, the industry wide differentiation necessary to guarantee the need for low- cost position in a limited space.

The firm stuck in the middle either loses the high volume customers who demand low prices or must lose its profit to get this business from low cost firms. It cannot maintain high margin businesses against those firms focused on high margin targets due to their high differentiation overall. It also suffers from a blurred corporate image and a conflicting set of organizational arrangements and motivation system. In some scenarios the problem may mean that the smaller (focused or differentiated) firms and the largest (cost leadership) firms are the most profitable, while the medium sized firms are the least profitable ones.

2.4 The Ansoff Product-Market Growth Matrix and Grand Strategies

This provides the basis for an organizations objective setting process and sets the foundation of directional policy for its future. Organisations have to choose between the options available to them relating to the products and services they may offer and their markets and this is at the heart of strategy formulation. The Ansoff matrix is used as a model for setting objectives along with other models like the Porter Matrix, Boston Consulting Group Matrix (BCG) and gap analysis. It entails four possible combinations; market penetration, product development, market development and diversification.

Figure 1: Porter Matrix, Boston Consulting Group Matrix

		Products	
		Present	New
Markets	Present	Market Penetration	Product Development
	New	Market Development	Diversification

Source: Ansoff H. I (1965), Corporate Strategy: An Analytical Approach to Business Policy for Growth and Expansion, McGraw-Hill Book Company, New York.

Market Penetration occurs when a company chooses to penetrate a market with its current products. This begins with the existing customers of the organization and its used by companies to increase sales without drifting from the original product- market strategy (Ansoff, 1965). This is done by gaining competitors customers, improving the product quality or level service and attracting non- users of the products or convincing current customers to use more of the company's product through marketing tools like advertising.

Product development occurs when a company develops new products catering to the same market. Reasons for use of this strategy include utilization of excess capacity, to counter competitive entry, maintaining the company's reputation as a product innovator, exploitation of new technology and protection of overall market share (Lynch, 2003). Often one such strategy moves the company into markets and towards customers that are currently not being catered for.

Market development strategy moves beyond its immediate customer base to attracting new customers for existing products. This strategy often involves the sale of existing products in new international markets. This may entail exploration of new segments of a market, new uses for the company's products and services, or new geographical areas in order to entice new customers (Lynch, 2003)

Diversification strategy is distinct in that when a company diversifies, it moves out of its current products and markets into new areas. Its important to note that diversification may be into related or unrelated fields. Related diversification normally is in form of integration. While diversified businesses seem to grow faster in cases where diversification is unrelated, it is crucial to note that success rate is still low and many businesses end up being divested (Porter,1987).Therefore diversification is a high risk strategy as it involves taking a step into a territory unknown and the risks can be minimized by moving into related markets (Ansoff, 1989).

Other than generic strategies whose importance is undisputed in developing competitive advantage, planning designers agree also about the critical role of grand strategies. Also called master or business strategies they provide basic direction for strategic actions. They are the basis of coordinated and sustained efforts directed towards achieving long term business objectives. A grand strategy is a comprehensive general approach that guides a firms major actions (Pearce and Robinson, 1997).

There are many principal grand strategies ranging from concentrated growth, market development, product development, innovation, integration, concentric diversification, conglomerate diversification, turnaround, divestiture, strategic alliances, joint ventures and consortiums. Any of these strategies could serve as a basis for achieving major long –term objectives of a single firm. Firms involved with multiple industries, businesses, product lines or customer groups usually combine several grand strategies (Pearce and Robinson, 1997).

2.5 Risks of Generic Strategies

Generic strategies carry differing risks which are important to highlight in order to improve a firms decision in choosing among them. Other scholars like Tracey and Wiersema (1995) also offer another generic framework for gaining competitive advantage which emphasizes on one of three ‘value disciplines’, product leadership, operational excellence and customer intimacy.

For this study we focus on Porters generic strategies and in his view cost leadership imposes severe burdens on the firm to keep up its position, which means reinvesting in modern equipment, ruthlessly scrapping obsolete assets. Cost leadership is therefore vulnerable to several risks among them technology. This may change faster than anticipated, bringing new and substantially cheaper techniques of production nullifying past investments or learning. Rivals may also imitate the low cost techniques and inability to notice market change and products required due to concentration on cost. Heavy investment in low cost techniques may lock a firm in its current technology and strategy leaving it vulnerable to changes in technology and market conditions.

Differentiation poses risks as well in that the cost differential between low cost competitors and the differentiated firm becomes too great to hold brand loyalty. Buyers therefore may sacrifice some of the luxuries services and features of the differentiated product for large cost savings. The buyers need for the differentiating factor may fall as well. This can occur as buyers become more sophisticated. Imitation may narrow the perceived value of a differentiated product, a common occurrence as industries mature.

A focus strategy bears its own risks as well Porter (1998) asserts that the focus strategy always implies some limitations on the overall market share achievable. The cost differential between broad range competitors and the focused firm widens to eliminate the cost advantages of serving a narrow target or to offset the differentiation achieved by focus. The differences in desired products or services between the strategic target and the market as a whole could narrow as well Competitors may find ways of matching the focused firm in serving its segments. There is also the risk of the segment buyer preferences shifting towards the product attributes required by the wider market. The segment may become so attractive that it attracts many competitors.

2.6 Challenges in Development and Implementation of Competitive Strategies

Development of a good fitting competitive strategy for an organisation is important. However, this strategy must be implemented for it to have any impact and contribute towards growth and sustainability of the organisation. In development of strategy, organisations face the risk of strategic drift whereby the changes in an organisations environment are at a greater rate than that rate of incremental change thereby causing the organisation to get out of line with its environment. Another danger is that organisations become merely reactive to their environment and fail to question or challenge what is happening around them or to innovate to create new opportunities; in short, they become complacent (Johnson et al,2003).

Strategy development and implementation processes in organisations need to encourage people in organisations to have the capacity and willingness to challenge and change their core assumptions and ways. This leads to the idea of a learning organisation which emphasises the delicate balance of addressing issues like cultural forces for inertia that tend to constrain strategy development and yet they could provide the capabilities for competitive advantage. The environmental forces an organisation faces, it has to try to understand and address. Yet the experience rooted in its culture makes it difficult to establish an objective and dispassionate view of those forces and the key lesson for management is to recognise and appreciate that challenge.

SME’s particularly facing many challenges in strategy development and implementation due to their distinguishing characteristics. Large firms often have direct access to international and local capital markets, while SMEs are often excluded because of higher intermediation costs for smaller projects. SMEs face a variety of constraints owing to the difficulty of absorbing large fixed costs, the absence of economies of scale and scope in key factors of production, and the higher unit costs of providing services to smaller firms. An insufficient supply of skilled workers can limit the specialization opportunities, raise costs, and reduce flexibility in managing operations.

SMEs have difficulties in gaining access to appropriate technologies and information on available techniques. This limits innovation and SME competitiveness. Previously insulated from international competition, many SMEs are now faced with greater external competition and the need to expand market share. Limited international marketing experience, poor quality control and product standardization and little access to international partners, however, impede expansion into international markets.

Complicated and inefficient tax codes that include cascading sales taxes and stamp taxes are least favourable to SMEs and artificially promote larger-scale firms. High start-up costs for firms, including licensing and registration requirements, can impose excessive and unnecessary burdens on SMEs. Even though SMEs tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of management talent, prevalent in most countries has a magnified impact on SMEs. Lack of support services or their relatively higher unit cost can hamper SME efforts to improve their management because consulting firms often are not equipped with appropriate cost effective management solutions for the scale of SMEs. In order to promote the development and growth of SMEs the institutional and regulatory barriers which are biased against them should be reduced. The key policy areas are in input markets (capital, labour availability and qualifications, technology, production inputs), output markets (pricing, anti-competitive policies, access to market information), and regulations (tax, tariffs, procurement, legal, capital movements).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research design

The design of this study was a survey. It was descriptive in nature since they are many and this methodology would identify the competitive strategies adopted by small and medium sized horticultural vegetable and fruit exporting companies based in Nairobi. Descriptive research according to Kothari (1990) is a powerful form of quantitative analysis and Donald and Pamela (1998) indicate that a descriptive study is concerned with finding out the what, where and how of a phenomenon.

3.2 Target Population

The population of study consisted of all registered and active small and medium sized Horticultural exporting companies located in Nairobi, Kenya by the government regulator of the industry, HCDA. The members had their own association, Fresh Produce Exporters Association of Kenya (FPEAK) by which classification of small and medium sized exporters are those with a turnover above Kshs 50 million and below Kshs 250 Million per year. HCDA statistics for active members in 2008 indicate that there are 78 such firms located in Nairobi in this sector and these formed the population of study.

3.3 Data Collection

Primary data was collected using a semi-structured questionnaire drafted in line with relevant literature review and personal intuition and divided into three parts. Part A comprised general business information, Part B the competitive strategies adopted while C targeted the challenges experienced in adopting and implementing these strategies. Questionnaires were self administered to either the chief executive officers or senior managers of respective companies who had an overview of the company strategy. The questionnaire were sent to respondents via email and a research assistant was employed to drop and pick questionnaires in cases where email addresses was not be readily available.

Secondary sources were used to provide quantitative and qualitative data about the research and to supplement the other methods. The Internet was used to explore and search for more detailed and comprehensive information by visiting the websites of vegetable and fruit exporting companies for background information.

3.4 Data Analysis

Data collected was edited for accuracy, consistency, uniformity and completeness. It was then categorized into emerging patterns before coding. The coded data was analysed using Statistical Package for Social Sciences (SPSS) and this being a descriptive study, descriptive statistics was used to analyse the data as it allowed for numerical description and comparison among various variables. Data was presented in various ways including tables and these were used because of their clarity as well as ease of understanding and interpretation.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter presents the results of the analysis of the data collected during the study survey. A total of forty eight completed and useable questionnaires were obtained from the members for the survey. This represents 62% response rate. The chapter is divided into four sections: Section 4.2 gives a summary of the general information, section 4.3 gives the response on strategies adopted to cope with competition and section 4.4 gives information on Challenges facing the firm in development and implementation of sustainable competitive strategies.

4.2 Respondent's Firm Profile

The general information considered in this study included company ownership, years of operation, Position in the firm, Number of employees, Average annual sales turnover for the last 3 years, product range and target market.

4.2.1 Company Ownership

The consideration in this analysis was whether companies were locally or foreign owned. This was considering the fact that if some were subsidiaries of larger organisations in other countries they may have borrowed some different management skills and styles from overseas and therefore showing different trends. The analysis however showed that all (100%) of the respondent companies were locally owned and hence there is likelihood of a high understanding of the SME operations in Kenya. This could also imply that the local entrepreneurs had found this industry to provide a good opportunity and hence the influx. Foreign ownership also is a strenuous procedure requiring an in-depth knowledge of governing rules and the government policies may not attract foreign investment due to very bureaucratic legislation.

4.2.2 Number of Years the Firm has been in Operation

Growth of organizations is a function of their age and management. This analysis was to establish the speed and rate at which organizations grew as it could be an indirect pointer to how challenging the industry was.

Table 4.2.1 Years in operation

	Frequency	Percent	Cumulative Percent
Less than 10	29	60	60
10 to 15 years	17	35	95
More than 15 years	2	5	100
Total	48	100.0	

As can be observed in table 4.2.1, the majority (60%) of the firms have been operating for less than 10 years, 35% have operated for 10 to 15 years while only 5% have operated for more than 15 years. This implies there is a growth curve where the business takes time to pick up and if well managed then after some years will leap into the next category of bigger exporters. This is not a very strange scenario and even though it does not tally with the size of the organisation statistics this may be attributed to different management styles.

4.2.3 Size of the Organization

Small organisations have been classified in this context as those with between 10 and 50 employees while medium are those between 51 and 99 employees. This analysis was to establish the dispersion of these organisations in the sector; reasons attributed to the same and establish any competitive strategy trends that could be attributed to either category. The findings presented in table 4.2.2 show that, 37.5% of the respondents firms had work force of less than 50 employees and 62.5% of the firms had above 50 but below 100 employees.

Table 4.2.2 Number of Employees

	Frequency	Percent	Cumulative Percent
Less than 50	18	37.5	37.5
Above 50 but below 100	30	62.5	100.0
Total	48	100.0	

They also all belonged to the category whose annual turnover was between Kshs 50 million and Kshs 250 million and therefore fitting the description of SME's by both the industry and the government. The high percentage who had between 50 and 100 employees could have this attributed to the high demand for labour given the packing of fresh product is still largely done manually in Kenya and mechanisation in this sector is yet to get a good hold.

4.2.4 Range of Products Exported

The range of products processed in the industry may be an indicator of application of some competitive strategies e.g. differentiation. The results presented in table 4.2.4 shows that 94% of the firms exported vegetables and fruits only. Only a paltry 6% had flowers as an additional product to the normal vegetables and fruits that they exported.

Table 4.2.3 Range of products exported by firms

	Frequency	Percent	Cum Percent
Vegetable and fruits	45	94	94
Vegetable, fruits and occasionally flowers	3	6	100
Total	48	100.0	

It a clear indication that the main products were fresh vegetables and fruits and the low degree of flower exports could be due to the high capital investment required in flower growing given that capital constraints were considered as one of the greatest challenges for these firms. It also implied that a strategy like differentiation could only be attained through other aspects and not mainly through product lines.

4.2.5 Target Market

Target markets define the direction an organisation is focusing on as an outlet for its products. This can be a major determinant of competitive strategies the organisation adopts. As can be seen in table 4.2.4, 75% of the firms sale their products through a combination of retail and supermarket outlets. 19% of firms use retail markets only and the remaining 6% sale through supermarkets only.

Table 4.2.4 Target market

	Frequency	Percent	Cumulative Percent
Supermarkets	3	6	6
Retail	9	19	25
Both supermarket and retail	36	75	100.0
Total	48	100.0	

There seemed to be some synergy created by using both retail and supermarkets and this could be that the supermarkets even though demanding higher quality and systems offered better prices while the retail markets enabled the firms to sell product which was of slightly lower quality as well and therefore affording them better pack outs of the raw material received.

4.2.6 Respondent’s Position in the Firm

Competitive strategies employed by a company may not be understood as a whole by all employees. Section heads may just understand the strategy for their respective section without a clear knowledge how this plugs into the overall strategy of the company.

Table 4.2.5 Position in the firm

	Frequency	Percent	Cumulative Percent
Administration manager	3	6	6
Marketing manager	9	19	25
Operation manager	9	19	44
Managing director	27	56	100
Total	48	100	

As shown in table 4.2.5, 56% of respondents were managing directors of the firms, 19% were marketing and operation managers each while only 6% were administration managers. The composition of the respondent's position shows that the information given can be relied on for decision making. For small and medium sized firms, the top echelon of management would be well aware of their firm's operations. This even more so than big corporates since the managers are expected to multitask and know more than one area of operation given the firm size and limitation of resources.

4.3 Competitive Strategies Adopted to Cope with Competition

Competitive strategies are moves aimed at positioning an organisation in its environment responding to external opportunities and threats and utilising its strengths while minimising its weaknesses in order to achieve a sustainable competitive advantage over rivals. This section covers findings from the specific questions posed to the respondent's to determine the extent to which various firms have adopted the respective strategies to cope with competition.

The range was ‘very great extent (5)’ to ‘no extent’ (1). The scores of very great extent and great extent have been taken to present a variable which had an impact to a large extent (L.E) (equivalent to mean score of 3.5 to 5.0 on the continuous likert scale ;(3.5≤ L.E <5.0). The scores of ‘moderate extent have been taken to represent a variable that had an impact to a moderate extent (M.E.) (equivalent to a mean score of 2.5 to 3.4 on the continuous likert scale (2.5≤M.E. <3.4). The score of both little extent and not at all have been taken to represent a variable which had an impact to a small extent (S.E.) (equivalent to a mean score of 0 to 2.5 on a continuous likert scale; 0≤ L.E. <2.5). A standard deviation of >0.9 implies a significant difference on the impact of the variable among respondents

Table 4.3.1 Extent to which respective firms have adopted the following strategies to cope with competition

	Mean	Std. Deviation
Overall cost of leadership (offering low prices for your products than competitors)	2.6875	1.01448
Product differentiation (offering products that are perceived industry - wide as very unique)	3.3125	.60208
Focus (focusing on a particular buyer group, product line or geographic line or geographic market)	3.8125	.65511
Superb client service or customer care	4.7500	.44721
Recruitment policies (recruiting competent staff)	3.5625	.62915
Intensive staff training e.g. taking staff for refresher courses	3.8750	.61914
Use of technology that is unique to tour firm	2.0000	.73030

From the findings to a very great/great extent; Superb client service or customer care (mean of 4.7500), Intensive staff training e.g. taking staff for refresher courses (mean of 3.8750), Focus (focusing on a particular buyer group, product line or geographic line or geographic market) (mean of 3.8125) and Recruitment policies (recruiting competent staff) (mean of 3.5625)

Superb client service or customer care is vital in the industry given that product needs to be sold fresh and the business is highly interactive between the buyer and seller. Communication needs to be almost instant and with email the players in the industry engage continuously. Changes happening are adjusted to in the shortest time possible and especially with regards to increases and reduction of orders which could happen just a few hours to shipment time

Intensive staff training keeps them abreast of the many changes in the industry and especially with regards to quality specifications and product treatment in the whole chain. Both industry and government regulations and especially in the importing countries keep on changing given product traded is food fresh for consumption and with the upsurge in health awareness especially with regard to edible foods worldwide. This was factored in during recruitment and especially for key positions where SME's may not have the time and resources to train.

Focus was well appreciated by many SME's given that they were transacting in an open global scene where competition was very stiff. They appreciated the importance of mastering what they did and understanding their market better than any other competitor if they were to survive and this could be due the fact that they were exposed to competition from all around the world for the same markets.

Product differentiation (offering products that are perceived industry - wide as very unique) (mean of 3.3125) and Overall cost of leadership (offering low prices for your products than competitors) (mean of 2.6875) were noted in the research. The homogenous nature of products and given there was little value addition as the product had to be fresh made differentiation difficult to be organisation specific. Some firms attempted to attain this through different packaging methods. The margins in the industry were noted to be very slim and therefore cost leadership was not a strategy favoured by many. And this is because all avenues for cost reduction in order to afford lower prices were open to all.

Use of technology that is unique to the firm had a mean of 2.0 and was not considered to be of any significant benefit as a competitive strategy. Alterations to product from its raw form were very minimal as it was sold fresh and therefore little opportunities to effect technology as a strategy to give competitive advantage. Labour also is cheap here and therefore any technology to cut down on production costs may not offer a large advantage as well. There is low variation on the respondents' opinion across the firms concerning the strategies adopted by the firms to cope with competition.

4.3.1: Existence of Documented Corporate Strategy

Corporate Strategy is an organization's process of defining its direction in making crucial decisions related to meeting its overall objectives. This includes allocation of its resources to pursue certain competitive strategies both in terms of capital and people. A documented strategy is important in that it guides all in the organisation and not just the visionaries and even though may be seen as an additional expense, the focus and commitment it creates through spread of information is worth the effort.

Table 4.3.2: Existence of documented corporate strategy

	Frequency	Percent	Cumulative Percent
Yes	30	62.5	62.5
No	18	37.5	100.0
Total	48	100.0	

62.5% of the respondents firms have put in place a documented corporate strategy while 37.5% of the firms do not have documented corporate strategy. It is an indication that many SME’s in this sector value an overall strategy accessible to many of their staff as opposed to a vision only in the leaders head. It also eliminates the risk of strategy collapse in the event of absence of the strategy pioneers and many of the industry players seemed to appreciate this fact.

4.3.2: Size verses Strategies Employed

For strategies to be sustainable they must match a firms overall objectives and operations. The purpose of this analysis was to establish whether there was any correlation between the firm size and the competitive strategies used.

Table 4.3.3: size * strategies employed Cross tabulation

		Strategies employed			Total
		Cost	Differentiation	Focus	
Small	Count	8	5	5	18
	% within	44.4%	27.8%	27.8%	100.0%
Medium	Count	5	10	15	30
	% within	16.7%	33.3%	50.0%	100.0%
Total	Count	13	15	20	48
	% within	27.0%	31.3%	41.7%	100.0%

The findings indicated that small horticultural exporting firms with between 10 to 50 employees strongly agree (44.4%) with the use of cost strategies as compared to medium export firms with 51 to 100 employees(16.7%). This could be attributed to the fact that small firms who would more than likely be new in the market are using this strategy to get into the market and attract clients first without necessarily looking at making huge profit margins. Differentiation was almost evenly preferred by both categories and this could be attributed to the fact that each firm as it grows wants to be significantly different from its competitors to have its own edge. Focus was highly preferred by the medium firms (50%) more than any other strategy compared to the small firms at 27.8%. Medium sized firms have fairly stable operations and have established their strengths and therefore are in a better position to know which clientele best fits their strategy and best flows with their operations. The experience gained by these firms can be used to establish how they will grow and retaining clients is a big part of their strategy as opposed to getting new clients all the time and so a lot of emphasis is putting to ensure they don't lose the existing client base.

In overall terms focus seems to be the most favourite strategy used by SME's (41.7%) while differentiation is used by 31.3% and cost 27% of the respondents. Margins are small in the industry and cost can only be an advantage to a certain extent and the products are fairly homogeneous making differentiation difficult as these options can be easily copied. Focus is highly used as the firms can establish what kind of operations they are running and how best to run them as they grow concentrating on doing what they do best.

4.4 Challenges SME Exporters Face in Development and Implementation of Sustainable Competitive Strategies

Development and implementation of sustainable competitive strategies needs to be deliberate for organisations that aim to succeed. This however can be challenging for different reasons and this section covers findings from the specific questions posed to the respondent's to determine challenges facing the firm's in this aspect. Tables, mean and standard deviation have been used to present the findings.

4.4.1 New Entrants to the Horticultural Export Industry.

New entrants to any industry could pose a great threat and existing players need to factor this when planning approaches to remain competitive.The respondents unanimously agreed that new players have entered the horticultural market in the last one year. The entrance rate was on 10 to 20 new firms in the last year entered the market. This meant that the strategies developed had to take into consideration the changes in the competition and strategies that targeted certain exporters who were seen as the main competition may not hold for long as there would be many new players with their own different strategies. Strategies developed need to factor what approach entrants may use and that threats were not just from the known existing players.

4.4.2 Level of Competition in the Horticultural Export Industry.

Level of competition in an industry plays a key role into how profitable and desirable a certain industry remains. A highly competitive environment means that players have to put more resources into fighting off competition and maintaining market share of the firm. This will dictate what competitive strategies are adopted and for how long these can be employed.

Table 4.3.4 Level of competition in the Horticultural Export Industry

	Frequency	Percent	Cumulative Percent
Very stiff competition	33	69	69
Stiff competition	15	31	100
Total	48	100.0	

As evident in table 4.3.4, 69% of the respondents were of the opinion that there is a very stiff competition in the horticultural export industry while 31% rated competition to be stiff. In general there is significant level of competition in the horticultural export industry. This meant that strategies to deal with competition had to be static as all players were constantly looking for new opportunities to gain an edge. A long term strategy may not work and constant reviews need to be done to establish whether strategy employed is still relevant. Time and resources put into development and implementation therefore have to be factored in.

4.4.3 Competitors in the Horticultural Export Market.

A firm needs to clearly identify its competitors in order to develop strategies concurrent with outmaneuvering those competitors. If one has identified the wrong competitors then strategies employed may not address the evident danger and lots of time and resources could be spend without considerable success at gaining sustainable competitive advantage over rivals.

Table 4.3.5: Competitors in Horticultural Export Market

	Frequency	Percent	Cum Percent
All	3	6	6
Big local exporters	3	6	12
Exporters in other countries	3	6	18
Small and big local exporters	3	6	24
Small and Medium local exporters	17	37.5	61.5
SME exporters and exporters in other countries	19	38.5	100
Total	48	100	

As indicated in table 4.3.5, 38.5% of the respondents were of the opinion that small local exporters and exporters in other countries were the main competitors, 37.5% identified their main competitors as small local exporters, while only 6% rated big local exporters. It is therefore evident that SME's in the sector needed to keep a close track on strategies being developed and used by other SME's locally and by exporters in other countries as priority if they hoped to survive. This also means copy cat strategies will not give the firms any undue advantage as other similar players will be able to copy easily and they had to look for unconventional ways.

4.4.4 Other Factors which Affected/ Continue to Affect the Development and Implementation of Competitive Strategy.

SME's continue to experience great challenges in strategy implementation in the face of growth that they need to achieve. Several factors were tabulated and the respondents were to rate how the challenges affected or continued to affect the development and implementation of their competitive strategy. The results are as shown in table 4.3.6.

Table 4.3.6 Extent to which the following challenges affected/ continue to affect the development and implementation of competitive strategy

	Mean	Std. Dev
Lack of necessary skilled personnel	2.8125	.75000
Rapidly changing market environment	4.4375	.51235
Capital requirements	4.8125	.54391
Poor technical support	3.3750	.50000
Government legislation and regulation and support	3.6250	.71880
Technological advancements	2.7500	.85635
Number of rivals and their relative sizes	4.1875	.83417
Number of buyers (market size)	3.6875	.60208
Industry profitability	4.4375	.72744
Threat of substitute products or services	2.3750	.71880
Low perceived benefit from development and implementation of strategy	2.6250	1.25831

The analysis categorized the challenges in to three categories using mean values, that is, mean of four (4) great extents. This category includes; capital requirement (mean of 4.8125), Industry profitability (mean of 4.4375), rapidly changing market environment (mean of 4.4375) and number of rivals and their relative sizes (mean of 4.1875)

Capital requirements undoubtedly ranked at the top like many other businesses due to the difficulties in access to capital and the cost of capital. All activities that would need to be done would involve some expense and given that SME's are normally at the growth stage of business where capital requirement is heavy then this is an additional burden. Most SME's have to choose wisely what they intend to use any available capital for if they are to grow and expand and strategy development and implementation may not offer immediate tangible results like many of the other options to choose from.

Industry profitability has declined and many of the entrepreneurs are worried as to the longevity of this industry as a whole. They are caught between developing long term expensive strategies that may not work and short term strategies that may allow them the opportunity to divest if things changed for the worse. The rapidly changing market environment does not help either as challenges faced now may not be the same in a short while. Strategies developed may not work when the market changes and therefore the solution may be dynamic strategies that could easily be altered to fit the current changing environment and obviously this goes with the risk of not having a clear direction. Rivals have shifted from the previously perceived bigger exporters to other countries and SME's will need to look at areas of cooperation that can afford them an advantage as an industry in one country.

Moderate extent challenges were perceived as number of buyers (market size) mean of 3.6875 and government legislation and regulation and support (mean of 3.6250). Given that the same buyers were buying from all over the world then this put the firm's under pressure to cope with changing tactics used by competitors and therefore their own strategies needed to be tailored to the competitions strategies as well. Given that product was going from country to country some of the government policies could either hinder or promote business and firms indicated the government could do more to assist the industry in becoming competitive. Their strategy development and implementation needed government assistance in various aspects e.g. price competitiveness through cost cutting and the government could lower taxes expected from the industry as some countries have done to promote their industry growth.

Mean of two (2), small extent includes; lack of necessary skilled personnel (mean of 2.8125), Technological advancements (mean of 2.7500), low perceived benefit from development and implementation of strategy (mean of 2.6250) and threat of substitute products or services (mean of 2.3750). Skilled personnel were fairly readily available locally and therefore not a great challenge. Technology was not widely used in this industry and so firms felt others did not have undue advantage to a great extent in this aspect and while products were fairly homogeneous , the risk of substitutes was minimal and therefore not a great concern.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The objectives of this study were to establish competitive strategies adopted by small and medium sized horticultural exporting companies in Kenya and to determine the challenges faced by these firms in development and implementation of these strategies.

Most of the firms were of relatively the same age in business with most ranging between 6 and 15 years implying that some initial time period was necessary before business could stabilise and grow to a certain level. All the firms that responded were locally owned showing the great interest that this industry has created among local entrepreneurs. From the findings, all the firms recorded an average annual sales turnover of above Kshs. 50M but below Kshs. 250M for the last 3 years. The firms export vegetables and fruits and some occasionally flowers which are sold mainly through retail and supermarket.

Competitive strategies mainly adopted by firms to cope with competition were focus (focusing on a particular buyer group, product line, geographic line or geographic market) through ssuperb client service, intensive staff training e.g. taking staff for refresher courses, and rrecruitment policies (recruiting competent staff). Ddifferentiation was applied as well especially through packaging of the products exported. The products were fairly homogenous and packaging is one area where the firms made concerted efforts at differentiation.

Overall cost leadership was employed mainly by small firms that were trying to get a foothold in the market but did not seem to be a favorite strategy in for the medium sized firms that were fairly established. This is because margins had declined a lot with increased competition in the recent past. Use of technology that is unique to firms did not have any significant impact in developing a competitive advantage in the industry and this could to some extend be attributed to the homogeneity of the products on offer. Most respondents were well aware of the need to develop competitive strategies and over 60 % had documented their strategies. Though some of them did not have written strategies they seemed clear of the direction they were taking and the general approach of their business.

Competition was agreed by all to be stiff in this industry thereby forcing players to be astute in their business practices and the main sources of competition were agreed to be mainly between upcoming small players and exporters in other countries. Local big exporters were seen to be in a different category and offering little competition to the SME's.

Capital requirements and industry profitability were the main challenges in development and implementation of strategy with number of rivals closely following. Number of buyers and government legislation and support were moderately challenging coupled with lack of skilled labour to some degree. Technology seemed to play an insignificant role as a challenge. These are challenges that these SME's will need to overcome in order to become more competitive.

5.2 Conclusion

As stated in literature, the essential managerial dictum of strategy is that competitive advantage accrues to those firms whose distinctive organisational competencies have a superior fit with the business and societal environments within which they operate (Andrews, 1971). Many SME's in the horticulture sector have strived for this fit and hence expanded the Kenyan horticultural export business.

In overall, competitive strategies form a key basis of the horticultural export industry performance hence cannot be underrated or ignored. The environment is very dynamic and the strategies that give an exporter advantage today may be irrelevant tomorrow hence the need for constant changes. This advantage will only be generated by strategies that are not easily copied by the competition. Between cost, differentiation and focus different firms seemed to have adopted varying strategies and this ensures that they all gain advantage in different ways that are not easy to duplicate creating a dynamic and vibrant industry. Trends seemed to emerge where certain strategies were mainly preferred by firms of certain sizes and this could be due to the similarity of challenges faced by these firms.

5.3 Recommendations

The study raised several issues that are of concern and that need to be looked into to ensure prosperity and growth of this industry.

5.3.1 Recommendations on Policy and Practice

Based on the findings of the survey, it is important that different players in the horticultural export industry apply different competitive strategies to gain that competitive advantage not only for their survival but also for their growth. Most of the firms indicated that price leadership was not a strongly viable option for them as a strategy even though it was important to be fairly priced in order to attract continued business given the strong competition. Cheaper prices only resulted to lower margins and lacklustre industry profitability which if unchecked could eventually bring down the whole industry. Most of the firms stressed on the importance of impeccable customer service as their stronghold in order to maintain any markets that they were able to attract and hence focusing on these markets.

Overall government policy and intervention was not deemed to help a lot in strategy development and implementation and in this aspect the government needs to look at areas of cooperation with the industry through policies it implements in order to facilitate competitiveness of the industry. Other countries mainly in the African, Caribbean and Pacific zones are continually becoming stronger competitors for the same markets. This could be in the whole chain from the farmers where the government through the ministry of agriculture can play a leading role in not only educating but providing basic necessities that would enhance their performance like good infrastructure; water harvesting and removal of all duty on farm input. At the exporter level the government could reduce the taxes as has been done by some competing countries like Ethiopia which has seen a shift of some of the players.

5.3.2 Recommendations on Further Studies

There would be need to do a full study on the competitive strategies employed by all the players in the industry including the big exporters and start ups as well given that small exporters were seen as the major competitors of SME's in this sector as well as challenges faced by these groups in development and implementation of their strategies. This will answer questions likely to arise as SME's grow as well as dealing with competition from small start ups given the rate at which this industry is expanding. Another area of interest would be how current strategic decisions are influenced by the existing external environment and challenges of determining the fit between an organisation's strategies and its external and internal environmental factors.

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Appendices

Appendix 1: Letter of introduction

Dear Sir/Madam

<u>Re: Research on Competitive Strategies Adopted By Small and Medium Sized Fruit and Vegetable Exporters Based in Nairobi, Kenya.</u>

I am a post graduate student in the school of business at the university of Nairobi currently undertaking a management research project on the above subject as part of the requirement. The results and findings arising thereof could be very usefull in policy formulation as well as assist the said organisations in developing strategies that guarantee expansion and growth in a constantly evolving market environment.

Your firm has been selected to form part of this study and I kindly request you to assist in data collection by providing some information on your firm. This is by filling the attached questionare and I assure you the information provided will exclusively be used for academic purposes only and treated with utmost confidence.

You will also be provided with a copy of the final work if you so desire.

Your cooperation is highly appreciated.

Yours faithfully,

David Mulwa Cell no 0722- 857142

Appendix II: Questionnaire

Research Topic: Competitive Strategies Adopted by Small and Medium Sized Horticultural Exporting Firms in Nairobi, Kenya.

Tick Where Applicable (√)

Section 1: Horticultural Exporter's General Information:

1. Name of the exporting firm (optional)

   ……………………………………

2. Company ownership:

   a) Local ( )

   b) Foreign ( )

   c) Other ( ) Please specify: …………………………………..

3. Number of years the firm has been in operation………………………

4. What position do you hold in the firm? Marketing manager

5. Number of employees in the organization

a) Less than 50 ( )

b) Above 50 but below 100 ( )

c) Above 100 but below 200 ( )

d) Above 200 ( )

6 Current number of employees:………………..

7 Average annual sales turnover for the last 3 years

a) Less than Ksh.50M ( )

b) Above Ksh. 50M but below Ksh. 250M ( )

c) Above Ksh. 250M but below Ksh. 1 billion ( )

d) Above Ksh 1 billion ( )

8. What range of products does your firm export?

a) Vegetables ( )

b) Fruits ( )

c) Flowers ( )

d) Other Please specify……………………………………………

9. What is your target market?

a) Retail ( )

b) Supermarket ( )

c) Other ( ) Please specify:

Section 2: Strategies Adopted to Cope With Competition

10. To what extent has your firm adopted the following strategies to cope with competition?

Tick where appropriate in the boxes below

Factors	Very Great extent 5	Great Extent 4	Moderate Extent 3	Low Extent 2	No Extent 1
Overall cost of leadership (offering low prices for your products than competitors)					
Product differentiation (offering products that are perceived industry – wide as very unique)					
Focus (focusing on a particular buyer group, product line or geographic line or geographic market)					
Superb client service or					

customer care					
Recruitment policies (recruiting competent staff)					
Intensive staff training e.g. taking staff for refresher courses					
Use of technology that is unique to tour firm					
Outsourcing (outsourcing services that are not your core business)					
Continuously increasing your client base					
Offering a wide range of products to many clients					
Acquiring or merging with competitors					
Use of publicity (advertising) locally & abroad					

11. Does your firm have a documented corporate strategy?

Yes ( ) No ( )

12. Other than those specified in the table above, what other strategies does your firm apply to cope with competition?

………………………………………..

13. What factors influence your choice of the various strategies that your firm has adopted?

14. a) In your opinion, is adoption of specific competitive strategies of any value to your firm?

Yes ( ) No ( )

b) Briefly explain your answer in 13 a) above.

Section 3. Challenges facing the firm in development and implementation of sustainable competitive strategies

15. a) Do you know of any new entrants to the Horticultural Export Industry in the country in the last one year Yes ( ) No ( )

b) If your answer to question 14 a) above is 'yes', about how many such new entrants do you know of?..................................

16. How would you describe competition in the Horticultural Export Industry?

a) No competition ( ) c) Stiff mpetition ( )

b) Weak competition ( ) d) Very Stiff competition ( )

17. Who in your opinion are the main competitors in Horticultural Export?

a) Small local exporters ( ) c) Exporters in other countries ( )

b) Big Local exporters ( ) d) others - specify ………………

18. To what extent have the following challenges affected or continue to affect the development and implementation of your competitive strategy?

Tick where appropriate in the boxes below

Factors	Very Great extent 5	Great Extent 4	Moderate Extent 3	Low Extent 2	No Extent 1
Lack of necessary skilled personnel					
Rapidly changing market environment					
Capital requirements					

Poor technical support					
Government legislation and regulation and support					
Technological advancements					
Number of rivals and their relative sizes					
Number of buyers (market size)					
Industry profitability					
Threat of substitute products or services					
Low perceived benefit from development and implementation of strategy					

19. Other than those specified in the table above, what other challenges does your firm face in development and implementation of strategy?

……………………………………………..

……………………………………………..

20. Briefly explain how increased competition has affected your firm in particular?