STRATEGIC RESPONSES OF PETROLEUM FIRMS IN KENYA TO CHALLENGES OF INCREASED COMPETITION IN THE INDUSTRY

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BY:

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A management research project submitted in partial fulfillment of the requirements for the degree of Master of Business and Administration, Faculty of Commerce, University of Nairobi

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DECLARATION

This management project is my original work and has not been presented for a degree in any other University.

Signed Date 29. 10. 2001.

Chepkwony Joel K.

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

Signed Date 1/11/2001

Dr. Martin Ogutu

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DEDICATION

To my parents, brothers, sisters and

Sarah with all my love

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ABSTRACT

Liberalization of the Kenyan economy and particularly the petroleum sector in 1994 has witnessed unprecedented competition in this once lucrative petroleum industry.

The study set out to document the strategic responses of the oil firms in Kenya to challenges of increased competition. To achieve this, the objective of the study was: -

- To determine the measures taken to respond to challenges of increased competition.

Primary data was collected using open-ended and closed-ended questionnaires from a census of 9 firms. The data was thereafter analysed using tables, mean scores, and percentages.

The analysis revealed that firms have made changes in their missions and their technologies and that there have been considerable attempts to diversify from the markets originally served. Firms' philosophies are now those aimed at achieving maximum customer satisfaction.

It was also established that firms have changed their ranking of goals. Survival as a goal is more important now as opposed to the pre liberalization era when profitability was seen as the ultimate.

In the area of planning, firms have now embraced participatory planning and that plan reviews is more frequent now. This is because of the constant changes in the business environment and the need to adjust accordingly.

Petroleum firms have also made adjustments in most of their strategic variables. Those variables that have been adjusted substantially are product strategies in which most firms have taken product quality as a top priority and seek to eliminate product contamination. They have also continuously introduced new products to meet the ever-changing customer needs. In promotion strategies, advertising expenditure has increased considerably with the use of various advertising media. In research and development, the firms have increased information gathering on competitors and customers needs with a view to maximising customer satisfaction. In cost structure there has been substantial move to cut down on costs through such measures as retrenchment. In social responsibility, there has been a move by most firms to be more caring to the local communities through such things as donations to the needy like children homes etc. In line with this is the fact that such issues as health, environment and safety are taken seriously. Other strategies such as pricing and distribution have also been enhanced.

CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND

Firms are social entities that are goal directed, deliberately structured activity systems with identifiable boundaries (Bedeian 1980). A firm itself as a system is inescapably found in a variety of inter-relationships to the larger systems that comprise the external environment.

A firm as an open system must interact with the environment to survive. It both consumes resources which it transforms into outputs and then exports the outputs to the consumers. Daft (1986) notes that open systems can be enormously complex in that internal efficiency is just one issue and is sometimes a minor issue. The organization has to find and obtain needed resources interpret and act on the environmental changes, dispose of outputs, control and co-ordinate internal activities in the face of environmental disturbances and uncertainties if it is to be effective.

Hofer and Schendel (1978) observed that for firms to be effective and hence successful, they should respond appropriately to changes that occur in their respective environments.

Major escalation of environmental turbulence means a change from a familiar world of marketing and production to an unfamiliar world of new technologies, new competitors, new

consumer attitudes, new dimensions of social control and above all an unprecedented questioning of the firm's role in society (Ansoff and McDonna 1990).

Government systems in developing countries regulated economic aspects of firm's behaviour which hampered competition. The practice encouraged the existence of unprofitable and inefficient firms while at the same time blocking new entrants. The restrictive trade practices resulted benefits accruing to protected firms due to manipulation from the system rather than from innovation and adoption of new technologies (World Bank Report, 1994). However the economies of most less developed countries including Kenya continued to perform poorly.

In a move to reverse the sorry state of the Kenyan economy, the Brettonwoods Institutions, that is, World Bank and the International Monetary Fund (IMF) recommended far-reaching social and economic reforms. Kenya was forced to accept the demands of these institutions as a condition for the disbursement of aid, which was suspended in 1991 (Ishrat and Faruqee, 1994). This action saw the re-introduction of multi-party politics in 1992 and the much-talked about liberalisation accompanied by economic uncertainty (Economic Survey, 1993).

Liberalisation primarily involves a movement towards less control of factor markets, financial markets and commodity markets. Less participation of governments in economic activities together with lower public expenditures are also advocated. Liberalisation has led to stiff competition in many sectors of the economy and has made firms change their activities in order to survive.

Kenya's petroleum sub-sector has not been spared the turbulence brought about by liberalisation hence increased competition. At worst the future would only be a logical extension of the historical past as described by Ansoff's scale on environmental turbulence (Ansoff, 1993). It has witnessed influx of players into the sector. This has adhered in stiff competition that has never been witnessed before. The once lucrative sector no longer boasts of huge margins, they have now started coming up with new strategies and critical evaluation of their activities in a move to stay afloat. Terminologies such as retrenchment, mergers and cost reduction quite unheard of in the past have began to take root.

Increased competition has created fundamental shift in economic environment. No firm can hope to stay afloat if it fails to come up with proper strategic responses. It's all a question of coming up with new strategies or risk being a dinosaur.

1.2 STATEMENT OF THE PROBLEM

The advent of liberalization in October 1994 in Kenya's petroleum sub-sector has witnessed unprecedented influx of players into this sector. This has led to stiff competition, as the fight for customers seems to be a never-ending war. The so-called major oil companies have lost a substantial part of their market share. This has been a bitter pill to swallow.

A crowded market and hair thin price variation mean that the country's main oil vendors have had to rely on new strategies in their quest for more sales and increasingly elusive market replete with strategic partnerships, mergers, acquisitions and twinning with other retail outlets. Kenol

petroleum acquired 51% of shares in Mid-Oil and Kobil bought 100% of Galana's in Uganda, while Shell BP acquired the Kshs. 7 billion Agip in Kenya.

New strategies such as retrenchment, critical evaluation of activities are now being undertaken all aimed at cutting down on costs. This may however take time to bear fruit. (Bruce, 1992).

The increased number of firms in this sector has given the consumers a wide variety of choices from which to make a choice. This, coupled with changes in socio-cultural trends such as education and the increased importance of time has forced oil companies to be more sensitive and responsive as customers are now demanding value for their money.

Liberalization of the sub-sector has witnessed mushrooming of petroleum retail outlets that are not only sub-standard but also illegal. Dumping of petroleum products meant for export back into the country thus evading duties and levies has been on the increase. (E. A. STANDARD 27TH JULY 1999)

Few studies have been done on strategic responses of firms due to changed environmental conditions. Kombo (1996) addressed the issue of strategic responses of motor vehicle Franchise holders in Kenya as a result of changed environmental conditions. He found out that firms have made substantial adjustments in their strategic variables in order to survive. Bett (1995) addressed the issue of impact of the on-going economic reforms on the dairy Industry in Kenya. His findings are that significant adjustments in the marketing mix elements have been made in order to remain competitive. Wamathu (1999) addressed the issue of strategic postures and

action evaluation in the Kenyan oil industry and found out that all the players were in the aggressive posture albeit in varying degrees.

The author is not aware of any research effort in Kenya or elsewhere that has been devoted to determine the measure undertaken to respond to challenges of increased competition in Kenya's petroleum sector. Therefore the question this research study is trying to address is:

How are petroleum firms in Kenya responding to challenges of increased competition in the industry?

1.3 OBJECTIVE OF THE STUDY

The main objective of this study will be:

1. To determine the measures taken to respond to challenges of increased competition.

1.4 IMPORTANCE OF THE STUDY

The findings of this study, it is hoped, will be beneficial to the following:

1. To the oil companies management, it is hoped that this study will sensitize them on responses to challenges of increased competition facing the industry.
2. To potential investors intending to invest in the oil industry.
3. To the customers, the study will enable them to choose the best service quality.
4. To the academicians, the findings will form a basis for further research.

1.5 DEFINITION OF TERMS

There are certain key terms/concepts in this paper that require clear understanding and whose definitions is therefore appropriate. Among those terms are the following:-

- **Strategy:**

Strategy has been defined differently by different authors. Andrews (1971) defines strategy as the pattern of objectives, purposes or goals and major policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be and the kind of company it is to be.

Hofer and Schendel (1978) define strategy as the fundamental pattern of present and planned resource developments and environmental interactions that indicate how the organization will achieve its objectives.

This latter definition will be adopted for the purpose of this study because it brings out an aspect that is important for this study – that any strategy statement must be a description of how the organization will interact with it's environment. Indeed an organization's present and planned interactions with its environment will determine how effective and efficient that organization will be.

For firms to be effective and hence successful, they should adapt appropriately to changes that occur in their respective environments (Hofer and Schendel, 1978). We have called such adaptations strategic responses because they alter the conditions for effectiveness.

- **Environment:**

The definition adopted for the purpose of this study is that of Andrews (1972), who observes that the environment of an organization like that of any other organic entity, is the pattern of all the external conditions and influences that affect its life and development.

- **Liberalization**

According to Ngeno (1990), liberalization primarily involves movement towards less control of factor markets, financial (including foreign exchange) markets and commodity markets. Less participation of governments in economic activities together with lower public expenditures are also advocated. This is the definition that will be adopted for purposes of this study.

- **Strategic Response**

Pearce and Robinson (1991) defines it as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. It is thus a reaction to what is happening in the environment of organizations. Porter (1980) points out that knowledge of the underlying sources of competitive pressure provides the groundwork for strategic agenda in action. Firms when faced by unfamiliar changes need to revise their strategies.

- **Petroleum:**

The word petroleum originates from two Latin words *Petra*, which means rock, and *Oleum* which means oil. It is a naturally occurring complex of hydrocarbon widely distributed in the sedimentary rock of the earth crust. Hydrocarbons are naturally occurring compound containing carbon and hydrogen and they may be gases, liquids, or solids. Solid hydrocarbons are referred to as asphalt, tar, bitumen. Liquid hydrocarbons are referred to as petroleum or crude oil. Gaseous hydrocarbons are natural gas.

The principal form of petroleum are: -

- Natural gas- which does not condense at standard temperature and pressure(STP = 760 mm Hg, 60° f, or 15.6° c)
- Condensate - which is gaseous in the sub surface but condenses into a liquid at the surface.
- Crude oil - which is the liquid part of petroleum.

The composition of petroleum includes: -

Paraffins (C_nH_{2n+2}), Naphthenes (C_nH_{2n}), Aromatics (C_nH_{2n-6}), Olefins (C_nH_{2n-2}) and Asphalitics (NSOs) containing Nitrogen, Sulphur and Oxygen compounds.

- **Competitiveness:**

A firm is said to be competitive if its goods or the services it offers at the marketplace match the features, quality and price expectations of the customer. If a firm can remain competitive, it can be assured of remaining,a going concern while at the same time paying dividends to its owners. At a national and international level, the definition for competitiveness becomes a little more

complex. According to Chase/Aquilano (1989), in 1985, the presidents' council on industrial competitiveness offered the following definitions: -

"Competitiveness for a nation is the degree to which it can, under free and fair market conditions, produce goods and services that meet the test of international markets while simultaneously maintaining and expanding the real incomes of its citizens."

- **Market share**

  This is the strength or voice a firm commands in the market.

- **Company mission.**

  Porter (1990) defines it as an enduring statement of purpose that distinguishes one company from other similar companies.

- **Relationship marketing**

  This is a strategic orientation adopted by both the buyer and the seller parties, which represents a commitment long-term mutually beneficial collaboration.

  It can also be defined as the process of creating maintaining and enhancing strong value laden relationships with customers and other stakeholders.

- **Brand**

  It is a sign a symbol a name or a combination of these that has a meaning to the customer.

- **Market segmentation**

  The process of dividing a potential market into district subsets of customers with common needs or characteristics and selecting one or more segments to target with a district mix.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 HISTORICAL BACKGROUND OF THE PETROLEUM INDUSTRY IN KENYA

The oil industry has experienced two deregulations, one in 1963 to 1971 and the second one from 1994 to present.

Between (1963 - 1971), the oil industry was partly deregulated. It was largely owned and managed by the oil companies. They were free to determine the prices of petroleum products on the basis of production costs and profit margins. However, the "white oil rule" forbade the oil companies from importing refined petroleum products. This was largely to ensure supply of liquified petroleum gas (LPG) and also partly to protect the commercial interest of the oil refinery.

The era of partial deregulation in the oil industry ended with the government's introduction of price controls on petroleum products in 1971. The governments then purchased 50% of the refinery's share holding from the original owners - Shell BP, Esso and Caltex. A new company the Kenya Petroleum Refineries Limited (KPRL) was formed.

The introduction of price controls (1971 - 1974) was partly caused by government's view of excessive spending on advertising by the oil companies. It was felt that savings resulting from reduced spending could be passed on to the consumer. The shift in policy was also in line with the prevailing economic thought which favoured increased government involvement in all sectors of the economy (Economic Survey, 1994). Approval for price adjustments had to be sought from the Ministry of Finance. This responsibility was however, shifted in 1979 to the Ministry of energy.

During price control period, oil industry executives constantly accused the government of creating inefficiencies in the market by distorting petroleum prices. They complained of governments' reduction of their profit margins by increasing taxes with no corresponding increase in prices (Daily Nation, 1994).

In 1994, the oil industry was deregulated again. The deregulation process was meant to dismantle all government controls that hindered the operation of a free market system. This was a positive move to organize the economy on the basis of a free and competitive market in order to enhance economic growth. Oil companies are now able to import refined products from the cheapest sources.

The changed scenario has now seen companies competing on price, product quality and service offered to customers (Nyoike and Oketch et al 1999). In 1996, the five subsidiaries of multinational corporations (Shell/ BP, Caltex, Mobil, Agip, and Total in descending order of

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market share) together accounted for approximately 85 percent of the market share with a paltry 15 percent going to the local Kenol/ Kobil.

2.2 STRATEGIC OPTIONS AND CONDITIONS

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

Hall (1980) made similar observation in his study of how large manufacturing corporations in America were affected when their external environments became turbulent. He found out that many structures that were stable and highly profitable during the "go-go" decade of the 1960s were moving towards instability and marginal profitability. Moreover the broad range of corporate strategies and "success formulas", which brought prosperity in those early years were being replaced with a much narrower range of strategic choices that were becoming essential to survive in the hostile environment ahead. Thus when there are changes in the external

environment corporate managers have to direct a great deal of attention to redefining their business as a crucial step to formulation of survival strategies.

There is also need to look beyond the ranks of one's competitors today and those that may become competitors tomorrow and exploit new markets.

Abel (1980) observes that a business should be defined in terms of three dimensions: the customer groups that will be served the customer needs that will be met and the technology that will satisfy these needs.

Peters and Waterman (1982) criticized strategic management practices that tended to be highly analytical, rational and rigid. They called for greater flexibility which could in turn enhance strategic thinking and innovation. They stressed the importance of establishing a strong corporate culture as this could greatly enhance effectiveness of management in companies. Ohmoc (1982) concurred with Peters Waterman (1982) by stressing the importance of planning in so far as it enhanced strategic thinking and innovation.

Competitive pressures are forcing corporations to adopt new flexible strategies and structures. Many of these are familiar: acquisition and divestures aimed at more focussed combination of business activities, reductions in management staff and increased use of performance based rewards (Kanter,1989)

Porter (1979) pointed out that once having assessed the forces affecting competition in an industry and their underlying causes, the corporate strategist can identify the company's strengths and weaknesses. The crucial strengths and weaknesses from strategic standpoint are the company's posture vis-a-vis the underlying causes of each force. Where does it stand against substitutes? Against the sources of entry barriers?

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

Strategy can be viewed as building defenses against the competitive forces and finding positions in the industry where the forces are weakest. Knowledge of the company's capabilities and of the causes of the competitive forces will highlight the areas where the company should confront competition and where it should avoid. If the company is low cost producer, it may close to confront powerful buyers while it takes care to sell them only products not vulnerable to competition from substitutes (porter, 1979).

Aaker (1996) asserts that positioning involves a decision to stress only certain aspects of a company's brand and not others. He further argues that the key in positioning strategy is that the

customer must have a clear idea of what the brand stands for in the product category and that a brand cannot be sharply distinctly positioned if tries to be everything to everyone. This explains that the building of brand name is a strategic thrust that cannot be avoided in turbulent environment.

Porter (1980) suggests three generic competitive strategies, which can help a firm develop a competitive edge over its competitors in a competitive environment. A firm can develop a strategy of overall cost leadership, differentiation strategy and focus strategy.

Cost Leadership

To achieve overall cost leadership in an industry, a firm can adopt functional policies and resort to aggressive construction of efficient – scale facilities. This can be done through rehabilitation of the plants and machinery and installation of new plants and machinery, if necessary, to enhance efficiency and cost reduction. Cost leadership can also be achieved through input sourcing from cheaper suppliers and also heavy up front capital investment in state-of-the-art equipment to reduce costs of customer service delays and minimize the cost of errors. Cost leadership will enable a firm to be able to compete favorably through price cuts especially when dealing with customers who are price sensitive.

Differentiation Strategy

Porter further argues that a firm can also adopt a strategy of differentiating its product or service offering as a means of trying to create something that is perceived industry – wide as being unique. Product uniqueness can be achieved, for example, through design and creation of

innovative features. The firm can then carry massive campaigns emphasizing the product uniqueness, the various models/brands available so as to build a strong brand identification and great customer loyalty to defend itself against competitors' products.

Focus Strategy

This strategy aims at narrow market segment, product category or certain buyers. This helps firms narrow their operations to specific markets and thus achieve competitive advantage. Focus therefore helps firms to direct their strategic plans to align themselves to the environment.

Apart from porter's generic strategies other strategic options are available to firms faced by turbulent business environment. These include: -

a) Pricing

This is a short lived strategy but can work with for a short time to boost sales when prices are revised downwards to attract customers. However Aaker (1996) observes that the pressure to compete on price directly affects the motivation to build brands. Porter (1980) states that price wars kill an industry where firms are engaged in offensive and defensive moves that will mean a more touch of widespread warfare.

Petroleum companies in Kenya have the habit of matching their prices with those of their competitors. Segman (2000) notes that every day the management meets to review local price situations in different places across the country. The price in the market is more fluid than it has ever been and blanket country wide price policy is now a thing of the past. He further

notes that the situation is mainly caused by the independent fuel retailers and suppliers who manipulate pricing to attract business.

b) **Focus on powerful customers**

In the 1990s many companies have acknowledged the critical importance of being customer oriented. Customers pay attention to after sales services, knowledge and responsiveness of employees. (Kotler, 1997).

Companies that were powerful in the 1970's such as General Motors are today struggling to remain profitable because they fail at marketing. There is therefore need to for companies to understand their market place and customers and the need to provide competitive value

c) **Improvement in quality of product or services**

Kanuk and Schiffman (1996) state that customers often judge the quality of a product or service on the basis of a variety of information cues which are intrinsic or extrinsic. Intrinsic cues concern the physical characteristics and the extrinsic include price, brand image and promotional message.

Customer satisfaction is the ultimate measure of quality. Most companies monitor this on the basis of number of letters of complaint and commendation. Other companies adopt a more pro-active approach and survey their customers on regular basis to ascertain customers perception of service quality (Drury, 1996).

Problem of services

Kotler (1997), Kanuk and Schiffman (1996) concur on the fact that it is more difficult for customers to evaluate the quality of services than the quality of products which is due to the general nature of services. The characteristics which makes them hard to design their marketing programs are that they are intangible, inseparable, perishable and variable.

To overcome the fact that consumers are unable to compare services side by side as they do with products, consumers rely on extrinsic cues to evaluate service quality (Kanuk and Schiffman 1996). Accordingly, in evaluating petroleum products and the accompany service for example the quality of the stations and the friendliness shown by the pump attendants all contribute to the customers overall evaluation of service quality.

They further state that since services are variable, marketers try to standardize their services in order to provide consistency of quality. Standardization unfortunately leads to loss of customized services that many customers value.

d) Relationship Marketing Strategy

This involves a process of attracting and keeping customers. On attracting potential customers, the company tries to convert them to repeat customers which are in turn converted into loyal customers who become advocates by practising the company and encouraging others to build long term "win-win" relationship with customers which is accomplished by delivering high quality good service to them over time. (Kotler, 1997).

Relationship marketing and effective resolution of customer problems are closely linked in terms of their mutual interest in customer satisfaction, trust and commitment (Achrol 1991, Morgan and Hunt 1994).

e) Strategic Alliances

Strategic alliance is co-operative agreements between firms that go beyond normal company-to-company dealings but fall short of mergers, acquisitions or full partnership (Strickland and Thomson, 1993).

Leading companies from different parts of the world have recently formed strategic alliances to strengthen their ability to serve global markets. This has led to savings in costs and wider market reach.

Kujawa and Grosse (1992) concurred with the above arguments and pointed out that alliances have become very popular vehicles for pursuing domestic and international business among large international contractors during the late 1980s and 1990s. they further argued that strategic alliances are formed when each partner has a weakness in the ability to carry out a specific business activity and the partner firm can compensate for that weakness but very often the weakness that leads a company to join in strategic alliance is availability of capital.

Prahalad and colleagues (1989) suggested that its crucial that firms not view alliances as passive opportunities to benefit from their partners' skills nor act as passive recipients of the

results of those skills. Rather, firms should treat, alliances as opportunities to actually learn those skills. Hey observed that in every case that Japanese companies emerged stronger than it's Europe and American partner, the Japanese one made big efforts to learn from it's partner.

Kujawa and Grosse (1993) state that the 1980s and early 1990s saw a virtual explosion in the number of strategic alliances. This is due to the pressure of international competition. The concept of strategic alliances in the Kenyan market and petroleum sub-sector is no exception.

f) **Mergers**

Pandley (1999) states that a merger is said to occur when two or more companies combine into one company One or more companies may merge with an existing company or they may merge to form a new company.

He further points out that business combinations which may take the form of mergers, acquisitions and takeovers are important features of corporate structural changes. Mergers have become popular in recent times because of enhanced competition, breaking of trade barriers and globalisation of business as a number of economies are being deregulated and integrated with other economies. Mergers thus help overcome the problem of slow growth and profitability in one's industry.

Arguing on the same line Kujawa and Grosse (1992) state that when mergers and acquisition take place, newly formed competitors often share up previous industry structures. This is

because the economic position of the new company increases thus commanding a big voice in the market.

2.3 CHALLENGES OF COMPETITION IN A LIBERALIZED ENVIRONMENT: PORTER'S 5-FORCE MODEL

Porters five forces of competition gives an insight into competitive dynamics in an industry. It offers a richer view of the competition by capitalizing on the competition on the interrelationship of five powerful and dynamic forces.

The degree of competition in an industry hinge on five forces: the threat of new entrants, the bargaining power of customers, the bargaining power of suppliers, the threat of substitute products or services (where applicable), and the jockeying among current contestants. To establish a strategic agenda for dealing with these contending currents to grow despite them, a company must understand how they work in its industry and how they affect the company in its particular situation. (Porter 1980)

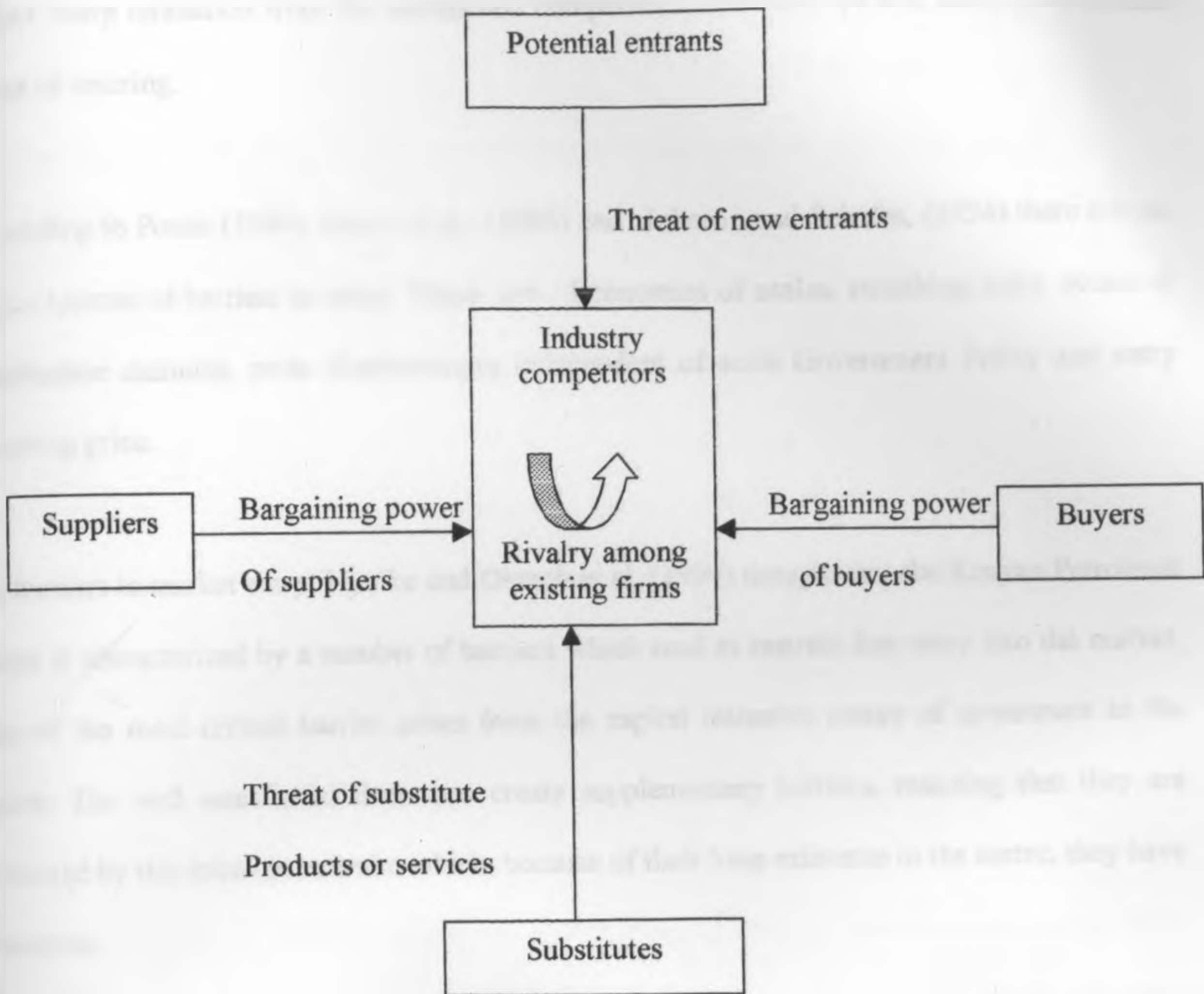
Aosa (1992), found that for competitive strategy to be applicable to the Kenyan context, other strategic forces must be included as opposed to similar models put forward in the developed world context. These new models had the following forces; customer's suppliers, competitors, logistics, power play and Government.

The essence of strategy formulation is coping with competition. Moreover, in the fight for market share, competition is not manifested only in the other players. Rather, competition in an industry is rooted in its underlying economics, and competitive forces exist that go well beyond the established combatants in a particular industry. Customers, suppliers, potential entrants and substitute products are all competitors that may be more or less prominent or active depending on the industry.

According to Porter (1998) the state of competition in an industry depends on five basic forces. The collective strength of these forces determines the ultimate profit potential of an industry.

In the economists "perfectly competitive" industry, jockeying for position is unbridled and entry to the industry very easy. This kind of industry structure offers the worst prospect for long run profitability. The weaker the forces collectively, however, the greater the opportunity for superior performance.

Table 1: Forces driving industry competition



Threat Of Entry

New entrants to an industry bring new capacity, the desire to gain market share and often-substantial resources. Companiès diversifying through acquisition into the industry from other markets often leverage their resources to cause a shape up; as Philip Morris did with Miller Beer.

The seriousness of the threat of entry depends on the barriers present and on the reaction from existing competitors that the entrant can expect. If barriers to entry are high and a newcomer can expect sharp retaliation from the entrenched competitors, obviously he will not pose a serious threat of entering.

According to Porter (1980), Byars et al, (1986) and Johnson and Scholes, (1994) there are six major sources of barriers to entry. These are : Economies of scales, switching costs, access to distribution channels, costs disadvantages independent of scale Government Policy and entry deterring price.

On barriers to market entry, Nyoike and Oketch et al, (1999) thought that the Kenyan Petroleum sector is characterized by a number of barriers which tend to restrain free entry into the market. One of the most critical barrier arises from the capital intensive nature of investment in the sector. The well established firms can create supplementary barriers, realizing that they are protected by this inherent restraint which, because of their long existence in the sector, they have overcome.

Nyoike and Oketch et al, (1999), found that the Government was already undertaking from initiatives to address these barriers. For instance to address these barriers. For instance it has rejected the demands that new entrants process crude oil at KPRL and contribute 4 per cent of the KPC line fill. KPC is also envisaging putting up additional imported fuel products storage facilities as well as import handling capacity at Mombasa, and loading arms for road tankers at the Nairobi terminal. Thus with the commissioning of these KPC- owned facilities new players

will be in a position to import and sell products, as produce loading facilities for road tankers already exists in the Kenya Pipeline Company's western Kenya terminals of Nakuru, Eldoret and Kisumu.

The vertical and horizontal integration of the industry also translate into initial barriers to entry faced by new entrants other barriers to entry are merely behavioral and relate to the unique relationship between the firms that operate within the market such as the fact that the major oil firms in Kenya are co-owners of the refinery together with the government.

The oil industry is replete with new entrants like Jovenna, Mafuta, Engen etc. They have caused a stir in the industry and at some point caused a lot of panic amongst the so called oil majors.

Writing on the future competition Hamel and Praharad (1994) paused the question: is senior management fully alert to the dangers posed by new unconventional rivals? Are potential threats to the current business model widely understood? This collaborates with the current scenario in the Kenyan Petroleum sector in which the environment is likely to become more competitive with the lowering of barriers to entry. This possibility is supported by conventional economic theory which stipulates that an otherwise non-competitive market protected by high barriers to entry becomes more lowered and new entrants join the market.

Empiral evidence shows that 48 new firms have been licensed since 1997. The Government's decision to address the issues relating to the lowering of barriers has encouraged new firms which are now preparing to enter the market, Nyoike and Oketch et. al, (1999).

supply of the seedlings and promote agro-forestry. The overall government policy is to enhance the adoption of alternative sources of energy.

Electricity

As depicted by Kenya Power and Lighting (KPLC) unit sales, electricity demand registered a growth of 2.00 per cent in 1999 compared with a growth of 2.5% recorded in 1998. This is attributed to low consumption of electricity arising from power rationing that began from September 1998 as a result of drought.

According to KPLC, the year 1999 was marked with wide distribution system reinforcement and maintenance to improve stability and reliability of supply at a cost of Kshs. 925.00 million that covered 40 schemes. This is in line with the company's continued effort to implement the rural electrification programme (REP) on behalf of the government. The number of customers under this programme rose by 6.00 per cent from 57,978 in 1998 to 61,436 in 1999.

Other Sources of Energy

Other sources of energy include solar power, bio-gas and wind energy. Wind is one of the greatest sources of natural energy. It can be used for the production of economical power to pump water or to generate electricity. The major constraints hampering exploitation of this source of energy has been lack of appropriate technology, lack of up-to-date data on wind regimes in the country and poor promotion strategies.

The more attractive the price performance trade off offered by substitute products, the firmer the lid placed on the industry's profit potential.

The Institute of Economic Affairs, (2001), in their study found that Kenyan households in both the rural and urban areas predominantly use wood and charcoal to supply subsistence energy requirements with the result that the country is getting increasingly deforested. The use of liquefied petroleum gas in Kenya has been hindered by among other things the cost of equipment that allows for the use of liquids petroleum Gas.

Consequently, the government continues with efforts aimed at encouraging the private sector to participate in the generation of energy and promotion of energy conservation methods and encourage consumers to adopt alternative sources of energy.

Wood Fuel Resources

According to the ministry of energy, wood fuel meets the bulk of total primary energy consumption of about 70% and provides over 93% of rural household energy requirements. At least 80% of urban household energy demands are met by charcoal, which dominate the use of fuel wood consumption exceeds replenishment some measures have been adopted to rectify the supply demand imbalance, to enhance environmental preservation. To achieve this objective, programmes aimed at promoting energy conservation through the use of technically efficient but cost effective and end use technologies have been adopted. Public information and educational programmes continue to be encouraged to ensure farmers adopt farm tree planting, increase the

Crude oil prices in the world markets do not always correlate perfectly with consumer prices in many markets, including Kenya. In many countries that are importers of petroleum products, the major component in the consumer price is often the taxes extracted by the Government, (Institute of Economic Affairs, 2001)

Nyoike and Oketch, et al, (1999) found out that for the large consumer with their own bulk storage facilities, the pricing structure is geared to taking advantages of low investment costs in the storage facilities.

Oil companies in their tender prices offer marginal costs related pricing which aims at achieving high trading volumes at low unit prices.

The unit prices cover small mark- ups above import parity and through such pricing principles some companies have been able to make profits while at the same time maintaining reasonable returns on investment. Any fixed costs not recovered through this pricing structure for bulk consumers, where there seems to be little or competition (Nyoike and Oketch et al, 1999).

Substitute Products

By placing a ceiling on prices it can charge, substitute products or services limit the potential of an industry. Unless it can upgrade the quality of the product or differentiate it via marketing, the industry will suffer in earnings and possibly in growth.

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Jockeying For Position

Rivalry among existing competitors takes the familiar form of jockeying for position - using tactics like price competition, product introduction and advertising slugfests. There has been intense rivalry in the petroleum industry due to a number of factors: -

- Competitors are numerous and roughly equal in size and power. This is especially so with the oil majors.
- Industry growth is slow, precipitating fights for market share that involve expansion -minded members.
- The product or service lacks differentiality or switching costs, which lock in buyers and protect one combatant from raids on its customers by another.
- Fixed costs are high creating strong temptation to cut prices. In order to sell capacity is normally augmented in large increments.
- Exit barriers are high. Exit barriers, like very specialized assets or management's loyalty to a particular business, keep companies competing even though they may be earning low or even negative returns on investment. Excess capacity remains functioning, and the profitability of the healthy competitors suffer as the sick ones hang on. Agip continued to operate in the Kenyan market for a long time though it continued to make losses and wanted to pull out of the Kenyan market as the government was cautious on the implication of such a development.

It should be noted that players in the petroleum industry are diverse in their operations and strategies. This is no wonder they continuously run head -on into each other.

Nyoike and Oketch et al, (1999), hold that if it were possible for more local entrepreneurs to enter the petroleum marketing and retail sector, it could, on one hand counteract oligopolistic behavior by the oil majors and lead to competitive pricing; and on the other contribute substantially to expanding the retail network.

2.4 CHALLENGES FACING THE PETROLEUM INDUSTRY

A firm's management system is a critical factor in it's responsiveness to environmental changes. Accordingly, the managers monitor the environment to assess the impact of the imminent challenges on the firms and do what is necessary to avert the impact. Further, because of the ever increasing turbulence in the environment, organisations were forced to become more responsive. The firms should thus match their strategies with the turbulence level in the environment. This ensures success and continuity. (Ansoff and Mc Donnell, 1990).

The petroleum companies in Kenya are facing great challenges most of which are blamed on cut throat competition from new entrants. This followed liberalization of the economy. Liberalization affected many sectors of the economy directly and others indirectly.

The liberalization of petroleum sector has resulted in he opening of filling stations in most parts of the country, especially by the independent petroleum dealers. This has consequently resulted in competitive prices and more so a never ending price under cutting. It should be pointed out

that pricing has become the central competition element in the Kenyan petroleum market. Other important factors like quality of products and service have taken back stage. Segman (2000) points out that this scenario has threatened dealers business across the country, causing sales volumes and gross margins to drop and forcing some good, experienced, dedicated and loyal dealers out of operations as one dealer puts it:

"Success in this business has always been my companion but not anymore."

New entrants are fast taking root in the Kenyan market. These include Engen, Nock, Fuelex and Elf - just to mention a few. Engen is a South African company and has an average market share of 25% in the South African market. It is actually the former South African Mobil (Mobil sold out due to apartheid sanctions in 1987). Engen has been in the Kenyan market selling chemicals and bitumen. The company is however, getting into downstream business and has started developing its retail network.

M'Mukindia (2000) points out that adulteration (mixing the petrol with lower taxed kerosene) has since occurred with relative ease, a practice not seen before liberalization. Far worse has been the increasing instances of export - bound fuel being diverted to the local market. This costs the exchequer some estimated Kshs. 400 million per month in cost income.

Major oil companies are dissatisfied with the way the government is handling cases of fuel dumping and adulteration. The Kenya Revenue Authority and the Ministry of Energy have not acted on offenders. The major oil companies have contracted a private company SGS Kenya Ltd.

to mark fuel destined for export to ensure its identification if it was dumped in the local market - a move that is expensive.

It's the presence of poorly constructed filling stations is a common feature along the roads at the moment. It's even chilling that these structures exist in residential areas as well. This is risk and a great threat to safety. In a move to reverse this scenario, the major oil companies have lobbying for a new petroleum bill that will see to it that safety, environmental and product quality standards are upheld (M'Mukindia, 2000).

However, Hamel and Praharad (1994) rhetorically pause whether regulatory issues preoccupy top managers across the industry? (i.e. do managers blame industry problems on regulators rather than search for creative solutions?)

The Institute of Economic Affairs, 2001, contends that the legislature and the policy makers must address themselves to the question of standards. It is important to realise that the greatest challenge facing the industry is to ensure compliance with the law for all the market players and this presupposes a competitive market. The regulatory authority will need to act decisively in this respect only if supported by the appropriate legislation.

Nyoike and Oketch et al (1999), further reiterate that investments in small scale kerosene retail outlets have been undertaken successfully by the local business community with and without financial assistance from the existing petroleum marketing companies. With new entrants it is

felt more vigorous competition will be realized when the proposed truck loading arms are installed at Nairobi.

2.5 STUDIES IN OTHER INDUSTRIES

Bett (1995) found that due to the on-going economic reforms in the country, firms in the dairy industry made some adjustments in their marketing mix components of product, price, promotion and the place in order to adapt to the changes and remain competitive in the liberalized industry. The firms made decisions on product range, differentiation, quality and brand name to enable them remain competitive. On prices, decision on price levels, discounts and allowances were important to enhance customers' perceived value. On promotion, the firms did little advertising but participated in show exhibitions as a way of promoting their products. On place variable, the firm made discounts on the distribution channels to use.

Bett further found out that in addition to the changes in their marketing mix components, the firms adopted more market driven strategic approaches. They engaged in market segmentation and market planning in order to cope with the competitive challenges. The firms also paid attention to the activities of their competitors while, at the same time, undertaking to know what was happening within the industry and their markets. In an environment that was dynamic, the firms found it necessary not only to be focussed but also to be flexible and adaptive.

Kombo (1997) found out that due to liberalization in the Kenyan motor industry, firms have generally made substantial adjustments in their strategic variables in order to survive in the competitive environment.

Kombo further found out that since the formulation of strategy is performed at any one time with the future in mind, the organisations' executives must be aware of those aspects of their organisations' environment which are susceptible to the kind of change that will affect the organizations future for effective strategic planning.

MARKETING MIX ELEMENTS

Salami (1989) specifies that effective and efficient marketing strategy presupposes the development of a marketing programme that comprises some important marketing elements. This is necessary for the identification of the appropriate segment of the market, implying the understanding of the needs of the customer. The other elements often referred to as the 4Ps of marketing are product, price, promotion and place (4Ps). The marketing mix (4Ps) as originally designed for the manufacturing sector has largely been adopted by the petroleum industry.

The 4Ps according to Magrath (1986) are strategic weapons in the firm's market struggle against it's rivals. If one of the elements may have to be co-ordinated to reinforce and multiply the impact of the key element . (Table 2 below).

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Table 2: Traditional elements of Marketing Mix (4Ps)

4P's	Sub elements of the 4P's
Product	♦ Product line ♦ Packaging ♦ New product development ♦ Product quality ♦ After sales service
Price	♦ Price level changes ♦ Quantity discounts ♦ Payment terms ♦ Published prices ♦ Pricing intelligence and trade discounts
Promotion	♦ Advertising ♦ Sales Promotion ♦ Public relations and publicity
Place	♦ Forward vertical integration ♦ Channel selection ♦ Channel support ♦ Customer service ♦ Direct marketing ♦ Personal selling

Source: Adopted from Fray, A. W. Effective Marketing Mix. Dartmoth College, 1956 (as cited in Business Horizon, May - June 1986). Pp. 45

Although the marketing mix elements (4P's) have been applied successfully to service industry, there are a group of marketers such as Cowell (1984) who assert that the 4P's are not enough. They argue that the original marketing mix was developed for application in the manufacturing industries and that the traditional elements of the marketing mix are insufficiently comprehensive for service marketing. The authors therefore argue that, in addition to the traditional 4P's, another 3P's be added for service industry.

(Magrath, 1986; Bloom and Bither, 1981 as cited in Jones, 1989). The 3P's suggested are personnel, physical facilities and process management. (Table 3)

Personnel: Personnel are the key to the creation of the service and its delivery to the customer in a consistently acceptable fashion.

Physical facilities: Represent the environment in which the service is assembled and where the firm and the customer interact.

Process Management: This refers procedures, mechanism, and flow of activities by which the service is delivered.

Table 3: Profile of the fully revised marketing mix : 7Ps

7 P's		Sub elements of the 7P's
Product	Quality Warranty	♦ Brand name ♦ Level ♦ After sales service
Price	Level Terms	♦ Discounts ♦ Differentiation
Promotion	Advertising Sales Promotion Publicity	♦ Selling ♦ Public relations ♦ Merchandising
Place	Location Coverage	♦ Channel ♦ Accessibility
Personnel	Personnel training Appearance Incentive Social skills	♦ Attitudes ♦ Other customers
Physical facilities	Environment Layout Furnishings	♦ Facilitating goods ♦ Tangible clues
Process management	Policies Mechanization Customer direction	♦ Procedures ♦ Employee discretion ♦ Flow of activities.

Source of table 2: Adopted from Jones P.; Service Industries, Pitman, London 1989, Pp. 256

CHAPTER THREE

METHODOLOGY:

3.1 RESEARCH DESIGN

A descriptive design will be used in the study. Churchill (1991:44) notes that a descriptive study can be used when the purpose is to:

a) Describe the characteristics of certain goals

b) Estimate proportion of people who behave in a certain way

c) Make specific predictions

Descriptive design is therefore justified for this study since it includes an array of research objectives whose purpose will be to come up with the responses to challenges facing the petroleum industry in a liberalized economy.

3.2 THE POPULATION

The population of interest in this study consists of all the 11 oil companies operating in Kenya. The list of these firms was obtained from the ministry of energy.

These are:

1. Caltex
2. Mobil
3. Kenol/Kobil
4. Shell/BP/Malindi
5. Total
6. Mafuta
7. Jovenna
8. Engen
9. Fuelex
10. Galana
11. National

Since the oil companies operating in Kenya at the moment are few; census method is justified as this approach to research ensures that data is collected from all the units in the population, thereby enhancing confidence in the findings and conclusions arrived at:

A census study is most appropriate whenever the population of interest is small and the population units markedly different. Parasuraman (1986) observes that a census study is feasible from the standpoint of cost, time and accuracy.

3.3 DATA COLLECTION METHOD

This study will use primary data. Primary data will be collected using a questionnaire containing both structured and unstructured questions. The questionnaire will be administered personally by the researcher using the drop-and-pick-later method. One questionnaire will be given to each company. Responses will be sought from managers who have been with the industry for not less than 3 years. The length of time is important to ensure that they are well versed with the changes in the industry. The firms should have been in operation for the last 8 years.

The questionnaire will be divided into two (2) sections; I, and II. Section I will consist of 8 questions designed to capture information about the general characteristics of the firm.

Section II will capture the responses/measures taken to counter the challenges brought about by increased competition.

3.4 DATA ANALYSIS TECHNIQUES

Data in this study will be analysed using descriptive statistics. These will include tables, proportions/percentages, and mean scores to achieving the set objectives. Mean scores will be calculated to indicate what adjustments have been adopted on the strategic variables in response to competition. The mean scores will be ranked on a 5-point Likert scale with 1 taken to mean the highest level and 5 the lowest level. These descriptive analytical techniques have been applied in related studies in the past by Bett (1995).

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 INTRODUCTION

This chapter deals with data analysis and interpretation of the research findings. The data in this study was summarized and presented in form of tables, frequencies, percentages and mean scores. It documents whether the firms have changed their missions, goals, objectives, strategies and plans in response to competition. It also documents adjustments made in strategic variables by firms in response to changes in the business environment.

All the nine respondents chosen in for the study were analysed. Four respondents were interviewed on the basis of the questionnaire whereas five respondents filled the questionnaire through the "Drop-and-pick later" method because personal interviews were not possible.

Table 4: Companies's Years of Establishments

PERIOD	FREQUENCY	PERCENTAGE
Before 1980	4	44.5
1980 - 1990	0	0
1991 - 1994	0	0
After 1994	5	62.5
TOTAL	**9**	**100**

As shown in Table 4 above, a total of 9 firms participated in the study. The response represents 81.8 percent of the total 11 companies in the census study. The response is good enough to represent those that failed to participate in the study. Of the 9 respondents 5 were interviewed while on the rest data was collected by the 'Drop-and-pick later" method.

As indicated in Table 4, 44 percent started operations in Kenya before 1980 while 62.5 percent started operations after 1994.

4.2 CHANGES IN FIRMS' MARKETS, GOALS, PLANS AND OBJECTIVES IN RESPONSE TO COMPETITION

Table 5: Markets Served by Firms

MARKET SERVED	NO. OF FIRMS	PERCENTAGE
Domestic	3	33.3
Domestic and Foreign	6	66.6
Foreign Only	0	0
TOTAL	**9**	**100**

As Table 5 shows, out of 9 companies firms, 3 of them representing 33.3 percent carry out their business activities within the country while 6 firms representing 66.6 per cent practice both local and international business. In other words, the majority of the firms are multi-nationals and do have subsidiaries in other countries other than Kenya.

Table 6: Distribution of Firms into their Perception of Competition

LEVELS OF COMPETITION	FREQUENCY	PERCENTAGE
Very Intense	7	77.8
Fairly Intense	2	22.2
Negligible	0	0
TOTAL	**9**	**100**

As shown in Table 6 above, 77.8 percent of the firms perceive competition to be very intense, whereas the rest perceive it to be fairly intense. One respondent who stated that competition is very intense, argued that there is unethical undercutting of prices that is damaging the industry.

The respondents were further presented with some variables from which the study sought to find out what they thought led to the change in recent years. The findings are given in Table 7 below.

Table 7: Distribution of Firms Into Factors that are Perceived to have led to Change

	FREQUENCY	PERCENTAGE
Technology	1	11.1
Economic Depression	3	33.3
Liberalization	4	44.4
Political Legal Factors	1	11.1
Others	0	0
TOTAL	**9**	**100**

As shown (See table 7) 44.4 percent of the firms that perceive competition to be very intense attribute it to liberalization, 33.3 percent attribute it to economic depression, 11.1 percent to technology and 11.1 percent to political legal factors. The study thus reveals that the effect of liberalization coupled with economic depression has seriously affected the oil industry.

Other factors that were pointed out to be affecting the companies are low business volume, unethical under cutting of prices, too many players, power play and the need to meet varied customer needs.

GOALS

In their response as to whether the firms have changed order of importance of their goals in response to competition, 90% of the respondents indicated that they have changed the order of importance of their goals after the liberalization of the industry. The respondents argued that before liberalization growth and /or profitability were given priority. But after liberalization, survival is now ranked first by all these firms followed by growth and profitability.

Table 8(a) Distribution of firms into whether changes occurred in the long term planning in response to competition

	FREQUENCY	PERCENTAGE
Yes	7	77.7
No	2	22.2
TOTAL	**9**	**100**

As revealed in Table 8(a), most of the firms have changed their long term planning in response to competition. A paltry 20% have not changed their long term planning. The fact that a majority 77.7% has changed their long term planning is a strong indication of the intensity of competition being experienced.

Table 8(b) Distribution of Firms into how they consider long term plans now as compared to the period before liberalization

	FREQUENCY	PERCENTAGE
More Important	5	55.5
Equally Important	4	44.5
Less important	0	0
TOTAL	**9**	**100**

As depicted in Table 8(b), 55.5% of firms considered long term plans to be more important now as compared to the period before liberalization. A few firms numbering 4 or 44.5% consider such long terms to be equally important now as compared to the period before liberalization.

These findings suggest that most firms are taking long term plans seriously now as compared to the importance such plans were attached to before liberalization.

Table 9: Frequency of preparation of long term plans before and after liberalization

	Before Liberalization		**After Liberalization**	
	FREQUENCY	**%**	**FREQUENCY**	**%**
Semi-Annually	3	33.3	6	66.6
Annually	4	44.4	3	33.3
2-3 years	1	11.1	0	0
3-5 years	1	11.1	0	0
Never prepared	0	0	0	0
Others	0	0	0	0
TOTAL	**9**	**100**	**9**	**100**

As shown in Table 9, most firms have had to revise their long-term plans preparation to twice a year after liberalization representing 66% of all firms. Before liberalization only 33% of firms prepared, their long term plans semi-annually. It's also interesting to note that a paltry 11.1% of firms had their long-term plans prepared at intervals of 2-3 years and 3-5 years before liberalization. No firm was found to prepare their long-term plans at intervals exceeding one year.

This scenario points to the fact that the business environment has drastically changed following liberalization and that firms have to continuously monitor the environmental changes so as to make the necessary adjustments. This way they can hope to survive.

Table 10: Distribution of firms on changes carried out to respond to competition after liberalization

CHANGES ON	FREQUENCY	PERCENTAGE
Corporate Mission/Vision	6	66.7
Technology	5	55.6
Organizational structure	6	66.7
Customer satisfaction profile	7	77.8
Product/Service ranges	7	77.8
Market Segments served	5	55.6
Staffing / recruitment	5	55.6
Strategic Alliances	3	33.3
Mergers / Acquisitions	2	22.2
Retrenchment	3	33.3
Others	-	-

As illustrated in table 10 above, 77.8% of firms indicated that they have focussed more on customer satisfaction profile and have had to re-look at their corporate Missions/Visions. This is

because corporate mission and customer satisfaction happen to be the guiding or rather driving forces behind the success of any company.

Strategic Alliances and retrenchments experienced 33.3% in terms of percentage of firms that had effected change on the various variables in order to respond to competition. Thus it can be said that though strategic alliances and retrenchments have taken place in Kenya oil industry, they haven't been so much pronounced as ways of trying to cope up with the challenge of increased competition.

Generally it can be said that most firms indicated that they had carried out various changes on most aspects deemed crucial in order to adjust to the new developments following liberalization.

Table 11: Distribution of Firms into the rate of importance of strategic option as a way of responding to competition

OPTIONS	Not at all				Very Important	Total
		1	2	3	4	5
Differentiation	-	-	-	3	6	9
Market Focus	-	-	3	3	4	9
Cost leadership	-	-	-	2	7	9
Product Development	-	-	2	3	4	9
Market Development	-	1	2	3	3	9

Diversification	-	2	-	2	5	9
Acquisition/Mergers	-	-	2	4	3	9
Strategic Alliances	-	1	3	3	2	9
Others	-	-	-	-	-	-

As shown in Table 11, 6 firms representing 66.66 percent said differentiation is very important and only 3 representing 33.33 percent said differentiation is important to the firms studied. As for market focus, 4 firms representing 44.44 percent indicated that it is very important, 3 firms indicating 33.33 percent indicated that it is important while a similar number of firms took a neutral stand.

As for cost leadership, 7 of the firms representing 77.7 percent regard it as very important while only 22.2 percent regarded it as important.

As for Product development, 4 firms representing 44.4 percent regarded it as very important, 3 firms representing 33.3 percent regarded it as important. The remaining 22.2 percent took a neutral stand.

In as far as Market development is concerned, 6 firms representing 66.7 percent were of the opinion that this particular option was either important or very important. One firm representing 11.1 percent regarded it as not important while the remaining 2 firms representing 22.2 percent took a neutral stand.

On Diversification, it was established that a majority 5 firms whose representative percentage is 55.6 indicated that option was very important while 2 firms representing 22.2 percent suggested that the option was important. The remaining 2 firms representing 22.2 percent said that diversification was not important.

The Acquisition/Mergers option showed that 3 firms representing 33.3 percent regarded it as very important. 4 firms representing 44.4 percent regarded it as important and only 2 representing 22.2 percent were found to have taken a neutral stand.

Finally, as for Strategic Alliances, 2 firms representing 22.2 percent regarded this option very important while 3 firms representing 33.3 percent regarded it as important. Those who took a neutral stand were 3 firms representing 33.3 percent and only 1 firm representing 11.1 percent indicated that strategic alliances option was not important.

4.3 ADJUSTMENTS OF STRATEGIC VARIABLES

In order to understand the current strategic responses of the firms to the increased competition in the industry, specific strategies were posed to the respondents and they were asked to indicate the level of adjustments that they have adopted in response to competition. The adjustments were ranked on 5 point Likert scale. A mean score was computed for each strategy, with 1 taken to mean highest level and 5 taken to mean lowest level. The strategic variables were Price, Product, Distribution, Promotion, Research and Development, Market Pre-dispositions, Personnel, Processes, Social Responsibility, Cost Structure and Differentiation. These strategies

were perceived as the major strategic variables that a Strategist can effectively employ in an effort to respond to changed environmental conditions. This section covers analysis and interpretation of the issues mentioned.

4.3.1 PRICING STRATEGIES

Table 12: Adjustment on Pricing Strategies Mean Scores

	Pricing Strategies	No. Of Firms	Absolute Score	Mean Score
1.	Giving generous price discounts	9	16	1.80
2.	Charging low prices to increase Sales volume	9	19	2.10
3.	Setting low prices to enhance Product volume	9	19	2.10
4.	Setting high prices to enhance Product image	9	31	3.40
5.	Giving Credit facilities	9	20	2.20

Mean Scores raked on a 5 point Likert scale with 1 taken to mean highest level and 5 taken as lowest

For table 12, the mean score of 3.40 indicates that the firms have not changed much their pricing strategies by setting high prices to enhance image.

All the other strategies have mean scores of approximately 2 and are interpreted to mean that the firms have moderately increased the use of these pricing strategies in their response to competition. Two respondents said that their firms are now selling purely on discount basis. One other respondent said that they were now setting low prices to enhance product volume and that the company is now volume driven as a survival strategy. Three of the nine respondents said they had begun offering generous credit facilities.

4.3.2 PRODUCT STRATEGIES

This entails endless combination of model quality, features brands and servicing. The strategies raised were on improvement in quality of existing products, introduction of new products, offering of after sales service and emphasis on product contamination checks.

Table 13: Adjustments on product strategies mean scores

	PRODUCT STRATEGIES	NO. OF FIRMS	ABSOLUTE SCORE	MEAN SCORE
1.	Improvement in quality of existing product	9	10	1.10
2.	Introduction of new products	9	12	1.30
3.	Offering of after sales service	9	13	1.40
4.	Emphasis on product contamination Checks	9	12	1.30

Mean score ranked on a 5 point Likert scale with I taken to mean highest level and 5 taken as lowest.

From table 13 all the mean scores are approximately 1 showing that all the product strategies have been significantly adjusted as the firms' strategic response to competition. However, the strategy of improvement in quality of existing products has been adjusted more than the other three produce strategies. In fact all the respondents interviewed were in agreement that to survive in the current market, one needs to continuously improve the quality of existing products, introduce new products, offer excellent after sales service and pursue efforts to combat product contamination.

4.3.3 DISTRIBUTION STRATEGIES

Table 14 : Adjustment on distribution strategies mean score

	Distribution Strategies	No of Firms	Absolute Score	Mean Score
1.	Use of various distribution channel	9	19	2.10
2.	Opening of branches at strategic areas	9	19	2.20

Mean scores ranked on a 5-point Likert scale with 1 taken to mean highest level and 5 taken as lowest.

As shown in table 14, all the distribution strategies have a mean score of approximately 2 which are interpreted to mean that the firms have moderately increased the distribution strategies as their strategic response to competition. Five of the nine firms explained that they have increased

the number of dealers countrywide and have opened branches/stations at strategic areas as a competitive response.

4.3.4 PROMOTION STRATEGIES

Table 15: Adjustment on promotion strategies mean scores

	PROMOTION STRATEGIES	NO. OF FIRMS	ABSOLUTE SCORES	MEAN SCORES
1.	Advertising expenditure	9	11	1.2
2.	Emphasizing on suitability of local conditions in ads.	9	12	1.3
3.	Use of various advertising media	9	15	1.7

* ***Mean scores ranked on a 5-point Likert scale with 1 taken to mean highest level and 5 taken as lowest.***

From table 15 the mean score 1.2 and 1.3 indicate that the firms have highly increased the respective promotion strategies. The five respondents who were interviewed argued that with increased competition, their firms have significantly increased advertising expenditure to create awareness to potential customers of the existence of their products and retail network and to position the unique features of their products in that minds of potential customers.

The mean score of 1.7 is interpreted to mean that the firms have moderately increased the use of various advertising media. Five firms indicated that they have now started using the radio, newspapers and magazine.

4.3.5 RESEARCH AND DEVELOPMENT

Table 16: Adjustments on Research and Development strategies mean scores.

	Research and Development strategies	No. of firms	Absolute score	Mean score
1.	Marketing research expenditure to identify customer needs	9	13	1.40
2.	Information on competitors			
	- Product	9	10	1.10
	- Price	9	10	1.10
	- Promotion	9	11	1.20
	- Distribution	9	15	1.7
	- Production method	9	16	1.8
3.	Investment in training and development programs.	9	14	1.6
4.	Hiring of experts/facilitators	9	18	2.0

Mean scores ranked on a 5-point likert scale with 1 taken to mean highest level and 5 taken as lowest.

From table 16 above, the mean score of 1.4 is interpreted to mean that the firms have considerably increased the marketing research expenditure to identify customer needs. Five of the respondents said that to succeed in business today demands identifying customer's needs and satisfying them better than competitors and this calls for the need to increase marketing research expenditure to identify these needs. Two respondents said that their firms have not been investing much in research but it is currently changing now planning to set up a research department.

The mean score of 1.1 and 1.2 are interpreted to mean that information gathering on competitors' products, prices and promotion have significantly increased. The mean scores of 1.7 and 1.8 are approximated to 2 and are interpreted to mean that the firms have moderately increased information gathering on competitor's distribution and production methods. Other information on competitors which was cited by 60% of the respondents was information on competitor's financial strength and support from their principals.

These respondents argued that it was important to increase the gathering of this information because it is necessary to know the strengths of rivals as a basis to creating competitive strategies.

The mean score of 1.6 is interpreted to mean that investment in training and development programs have been considerably increased. The mean score of 2 is also interpreted to mean that living of experts/consultants has been moderately increased.

The contributions of research and development cannot be underestimated. It greatly influences the development of new products. Product innovation contributes greatly to any company's growth and survival in the market. Harris and Monery (1990) stressed this fact observing that it is a critically important condition for survival in a changing environment.

The assessment of competitors' strategies is in order because it is necessary to know competitors well in order to effectively compete with them. Strategic moves of one company, affect or influence the actions of the other rival companies. As a result, the actions of rivals have a direct relevance in the choice of a firm's strategy. This is true because one has to succeed in such competition because just as the focus of one firm's efforts is the customer, so is the competitors. Thus oil firms emphasis on research and development and, especially, of information gathering above their competitors is a positive step towards success.

4.3.6 MARKET PRE-DISPOSITIONS

Table 17: Adjustments on market predisposition strategies mean score

MARKET PREDISPOSITION STRATEGIES	NO. OF FIRM	ABSOLUTE SCORE	MEAN SCORE
1. Focus on certain market segments	9	11	1.20
2. Initiative to seeking new domestic market	9	12	1.30
3. Initiative in seeking new foreign market niches	9	24	2.70
4. Development of models to suit the budgets of potential customers.	9	13	1.40
5. Identifying and target buyers of your products	9	12	1.30
6. Emphasis on relationship marketing	9	12	1.30

* *Mean scores ranked on a 5-point likert scale with 1 taken to mean highest level and 5 taken as lowest.*

From table 17, the mean score of 1.20 is interpreted to mean that the firms have significantly increased their focus on certain market segments. The mean score of 1.30 is also interpreted to me that the firms have considerably increased their initiative to seek new domestic markets.

The mean score pf 2.70 is approximated to 3 and is interpreted to mean that the firms have slightly changed their initiatives in seeking new foreign market niches. The mean score of 1.40 is interpreted to mean that the firms have significantly increased development of models to suit the budget of potential customers.

The mean score of 1.30 is interpreted to mean that the firms have considerable increased their efforts in identifying and targeting buyers of their brands while at the same time emphasizing on relationship marketing. Four respondents attested to this.

4.3.7 PERSONNEL (STAFF) STRATEGIES

Table 18: Adjustments on personnel mean scores

	Personnel/Staff strategies	No. of firms	Absolute score	Mean score
1.	Selection of qualified staff	9	11	1.2
2.	Training	9	12	1.3
3.	Retrenchment/Rationalization	9	12	1.3

* ***Mean scores ranked on a 5-point Likert scale with 1 taken to mean highest level and 5 taken as lowest.***

From table 18, the mean score of 1.2 is interpreted to mean that the firms have significantly increased their attention on selection of highly qualified staff. Five respondents indicated that

they now use recognized recruitment agencies after which potential employees are subjected to vigorous interviews.

The mean score of 1.30 is interpreted to mean that the firms have considerably increased the training of their employees. This mean score is also true to retrenchment/rationalization, which was quite unheard of previously in this once lucrative industry.

4.3.8 PROCESSES

Table 19: Adjustments on processes mean score

	Processes Strategies	No of Firms	Absolute Score	Mean Score
1.	Fast/Speedy Service Delivery	9	11	1.20
2.	Computerized records	9	13	1.40

* ***Mean scores ranked on a 5-point Likert scale with 1 taken to mean highest level and 5 taken as lowest.***

From table 19, the mean score of 1.20 is interpreted to mean that the firms have considerably increased their quest to offer more customer satisfaction by focussing in more on fast and speedy service delivery.

The mean score of 1.40 is interpreted to mean that the firms have significantly increased the use of computerized records in quest for more efficient service delivery.

4.3.9 SOCIAL RESPONSIBILITY

Table 20: Adjustment in social responsibility mean score

	Social Responsibility Strategies	No of firms	Absolute Score	Mean Score
1.	Event sponsorship	9	13	1.40
2.	Donations to the needy	9	12	1.30
3.	Environment, health and safety	9	12	1.30

* ***Mean scores ranked on a 5-point Likert scale with 1 taken to mean highest level and 5 taken as lowest***

From table 20 above the mean score of 1.40 is interpreted to mean that the firms have considerably increased their sponsorships on various events. Five respondents indicated their commitment to continue sponsoring various events as an indication of their gratefulness to society for their continued support.

The mean score of 1.30 is interpreted to mean that the firms have considerably increased their donations to the needy in society and that environmental, health and safety issues have taken a centre stage.

4.3.10: COST STRUCTURE

Table 21: Adjustment in cost structure mean score

	Cost Structure Strategies	No. of Firms	Absolute Score	Mean Score
1.	Staff retrenchment/rationalization	9	12	1.30
2.	Automation	9	15	1.7

* ***Mean scores ranked on a 5-point Likert scale with 1 taken to mean highest level and 5 taken as lowest.***

From table 21, the mean score of 1.30 is interpreted to mean that firms have considerably increased staff retrenchment/rationalization as a way of setting down costs. Six firms indicated that costs related to staff/employees account for over 60% of the total recurrent expenditures.

The mean score of 1.40 is interpreted to mean that firms have significantly increased their office and out of office automation. This is in line with the need to offer efficient and highly reliable services to the ever-demanding customers.

4.3.11 DIFFERENTIATION STRATEGIES

Table 22: Adjustments in Differentiation Mean Score

	Differentiation Strategy	No. of Firms	Absolute Score	Mean Score
1.	Branding	9	17	1.90
2.	Improvement of Customer Service	9	11	1.20

**** Mean scores ranked on 5 point Likert scale with 1 taken to mean highest level and 5 taken as lowest.***

From table 22, the mean score of 1.20 is interpreted to mean that firms have significantly increased their focus on customer service. Seven respondents attested to this.

The mean score of 1.90 approximated to 2 is interpreted to mean moderate increases strategies on branding as a way of differentiation.

CHAPTER FIVE

SUMMARY AND CONCLUSION

This particular chapter presents a summary of the research project whose main objective was to determine the measures taken by our firms in Kenya in response to challenges of increased competition. Based on the findings, the chapter gives recommendations on how strategic responses can further be improved to meet the demands of the ever-changing environment. The limitations of the study together with suggestions for further research are also discussed

5.1 SUMMARY

The liberalization of the Kenyan oil industry has witnessed a lot of intense competition among players. In order to remain in business, the oil industry players have made various strategic changes in their internal dimensions.

The firms have made substantial adjustments in as far as markets served are concerned. This is because of the need to diversify and move out of the local market, which has become too crowded and competitive. Firms have also explored various market segments not ventured into before.

The firms have also made changes in as far as prioritization of goals is concerned. Before liberalization, growth and profitability were given priority. This scenario has since changed with survival being the most important goal followed by growth and profitability.

In an effort to respond adequately to the competition, the firms have also made changes in their planning. Before liberalization, most firms limited planning to top Managers. This has since changed as lower level Managers and employees participate actively. This is based on the realization that all employees irrespective of their ranks have ideas, which could benefit the firm. Interactions are now more regular and plan reviews are carried out more frequently now than the period before liberalization.

The firms have made substantial changes in the principal components of their corporate missions. Most of the changes relating to various improvements have been made in the firms' technologies so as to make competitive products. This is especially so on the lubricants where superior and better performing additives have been added on the basic product. The packaging element has also been modified to make the lubricants more attractive. This has been possible with the use of better and more superior technology.

The firms in an effort to be competitive have re-designed their organizational structure with a view to making them flatter and hence increasing efficiency. This is because customers want solutions to their problems there and then and not "I'll come back to you."

In an effort to gauge customer satisfaction, firms have also put in place various measures aimed at getting feedback from customers with a view to making improvements.

Firms have also introduced various additional products on offer to the customers and not just having to rely on the traditional products of offering petroleum products.

Other changes effected to respond to the challenges of increased competition include that of recruitment. It was established that firms have tightened their recruitment policy and have put in place high academic and professional qualifications as a requirement for consideration.

Strategic alliances together with mergers and acquisition quite unheard off in pre-liberalization period in the Kenyan petroleum industry have begun to set foot. Retrenchment has also been witnessed though to a less extent. These measures have been put in place in an effort to cut down on costs which has been blamed as one of the reasons for the dwindling profit/margin in this sector.

The study also reveals that oil firms treat various strategic options as being very important as ways of responding to challenges of increased competition. Among these strategic options are differentiation, market focus, cost leadership and diversification.

The petroleum firms have also made adjustments in strategic variables in their attempt to survive in the competitive environment. It was established that various strategies have generally been adjusted moderately or significantly. The most adjusted strategic variables were product,

promotion, social responsibility, process, research and development market pre-dispositions and cost structures.

Most firms have significantly adjusted the product strategies by improving quality of existing products to meet the ever-changing customer needs. Most firms have also engaged in extensive promotion and adopted cost cutting strategies.

The study also reveals an emphasis on research and development by most firms. This is aimed at establishing the ever changing customer needs and keeping a breast of competitor activities. Training and development has also been increased so as to equip employees with skills.

Substantial adjustments have also been made on market pre-dispositions with a view to meeting needs of certain market segments, developing products to suit budgets of potential customers and emphasis on relationship marketing.

Most firms have also taken social responsibility seriously. Firms have now focused on donations to the needy, sponsoring events and environmental, health and safety issues are top on the agenda.

5.2 CONCLUSIONS AND RECOMMENDATIONS

The study reveals that firms have generally made substantial adjustments in order to survive in the competitive environment. The adjustments are in order. It is necessary that firms be pro active rather than being reactive.

Organizations face continued changing environmental conditions. It's important that Managers of these organizations understand this so as to steer their organizations to success. They should strive to avoid falling victims of the strategic problems resulting from inability to properly adjust to their environments. Information gathering and processing systems are critical to any organization that endeavors to make the best of the prevailing environmental conditions. This is perhaps the surest way of ensuring effective decision-making and being pro active at all times.

Equally important is the realization that formulation of strategy is performed at any one time with the future in mind. Firm's executives should therefore continuously review those aspects of environment to ensure effective strategic planning.

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

5.3 LIMITATIONS OF THE STUDY

1. The study focused more specifically on competition. There are other environmental factors such as economic factors that might have seriously affected the operation of the firms.

2. Not all respondents were interviewed as 50% of the firms were reached using the drop-and-pick-later method. The respondents not interviewed may have misinterpreted the questions in questionnaire, as there was no probe. It's also possible that they may not have expressed their views well on paper thus giving false impression of what they really meant.

3. Time allocated for the study was limited. More time was required to access and review the otherwise scattered literature on petroleum firms and competition.

5.4 SUGGESTIONS FOR FURTHER RESEARCH

1. The study focussed on the strategic responses of petroleum firms in Kenya to challenges of increased competition. A similar study could be carried out in a country in the developed world.
2. A similar study could also be carried out to determine how firms in other industries have responded to the challenges of increased competition.

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APPENDICES

APPENDIX A

Oil Companies in Kenya as at June, 2001

1. Shell/ BP/ Malindi Ltd.
2. Mobil Oil (K) Ltd.
3. Caltex Oil (K) Ltd.
4. Kenol/Kobil Petroleum Company Ltd.
5. Jovenna
6. Fuelex
7. Total (K) Ltd.
8. Mafuta Oil Company
9. National Oil Corporation of Kenya (NOCK)
10. Galana
11. Engen

Source: Ministry of Energy

APPENDIX B

UNIVERSITY OF NAIROBI
FACULTY OF COMMERCE
MBA PROGRAM - LOWER KABETE CAMPUS

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Nairobi, Kenya

INTRODUCTORY LETTER

INTRODUCTORY LETTER: MR. JOEL K. CHEPKWONY

MR. JOEL K. CHEPKWONY is a Masters student in the Faculty of Commerce, University of Nairobi. In partial fulfillment of the requirements of the Masters in Business and Administration (MBA) degree, he is conducting a study on ***"STRATEGIC RESPONSES OF PETROLEUM FIRMS IN KENYA TO CHALLENGES OF INCREASED COMPETITION IN THE INDUSTRY".***

Being a top-level manager, we kindly request your participation by sparing him some time to fill the attached questionnaire. Any additional information you might feel necessary for this study is welcome.

The information and data required is needed for academic purposes and will be treated in strict confidence. A copy of the research project will be available to your organization/firm upon request.

Your co-operation will be highly appreciated.

Thank you.

Yours sincerely,

DR. M. OGUTU
MBA COORDINATOR

APPENDIX C

QUESTIONNAIRE

SECTION I

1. Year when the company started operations in Kenya.

____

____

2. Please name the products your company sells in Kenya.

____

____

3. Markets served (tick one)

a) Domestic markets only ____________ b) Domestic and foreign ____________

c) Foreign markets only ______________

4. a) How many retail outlets do you have in Kenya? ______________

b) How many of them were put up after 1994? ________________________

5. Describe the competition your company now faces (tick one)

a) Very intense ( )

b) Fairly intense ( )

c) Negligible ( )

6. Is the current competition faced by your company stronger than it was before 1994?

Yes ( ) No ( )

If stronger, what do you think has led to this? (Tick as appropriate).

Technology ( )

Economic depression ( )

Liberalization ( )

Political legal factors ( )

Others (please specify) ....

....

7. Rank the following goals in order of importance to your company before and after liberalization. Begin with the most important as rank (1). Indicate the rank in the bracket provided against each.

Before Liberalization		After Liberalization	
♦ Survival	( )	Survival	( )
♦ Growth	( )	Growth	( )
♦ Profitability	( )	Profitability	( )
♦ Public image	( )	Public image	( )

SECTION 11

STRATEGIC RESPONSES

1. Has there been a change in the long term planning of your company in response to increased competition? Yes ( ) No ( ) How important would you consider such plans to be now as compared to the period before liberalization?

   (Tick as appropriate)

   More important ( )

   Equally Important ( )

   Less Important ( )

2 How often have your long term plans been prepared in your company before and after liberalization

Before Liberalization		After Liberalization	
Semi-annually	( )	Semi-annually	( )
Annually	( )	Annually	( )
2-3 years	( )	2-3 years	( )
3-5 years	( )	3-5 years	( )
Never prepared	( )	Never prepared	( )
Others (specify period)		Others (specify period)	
______________________		______________________	
______________________		______________________	

3. In which of the following areas have you carried out changes to respond to competition after liberalization? (Tick only those that you have changed) For those that have changed indicate briefly the nature of change in the space provided against each.

Corporate mission/ vision ( ) ______________________

Technology ( ) ______________________

Organizational structure ( ) ______________________

Customer satisfaction profile ( ) ______________________

Product /service ranges ( ) ______________________

Market segments served ( ) ______________________

Staffing/ recruitment ( ) ______________________

Strategic alliances ( ) ______________________

Merges/ acquisitions ( ) ______________________

Retrenchment ( ) ______________________

What other changes have you carried out (List and describe briefly below)

List	Brief Description
____________________	____________________
____________________	____________________
____________________	____________________
____________________	____________________

4. Rate the importance of each of the following strategic options to your company as a way of responding to competition. Rate on the following 5-point scale, where 1 = Not important at all, and 5 = Very important.

	1	2	3	4	5
Differentiation	( )	( )	( )	( )	( )
Market focus	( )	( )	( )	( )	( )
Cost leadership	( )	( )	( )	( )	( )
Product development	( )	( )	( )	( )	( )
Market development	( )	( )	( )	( )	( )
Diversification	( )	( )	( )	( )	( )
(Please specify)	______	______	______	______	______
Acquisitions/ Merges	( )	( )	( )	( )	( )
(Please specify)	______	______	______	______	______
Strategic alliances	( )	( )	( )	( )	( )
Others (please specify)	( )	( )	( )	( )	( )

5. For each of the following factor responses, please tick (√) only one of the respective numbers to indicate (as per the key) what adjustments have been adopted in response to competition.

KEY

1. – Very much increased

2. – Moderately increased

3. – Not changes

4. – Moderately decreased

6. – Very much decreased

A PRICE	1	2	3	4	5
1. Giving generous price discounts	( )	( )	( )	( )	( )
2. Changing low prices to increase sales volume	( )	( )	( )	( )	( )
3. Setting low prices to enhance product volume	( )	( )	( )	( )	( )
4. Setting high prices to enhance product image	( )	( )	( )	( )	( )
5. Giving Credit Facilities	( )	( )	( )	( )	( )
Others (Please specify)					
______________________	( )	( )	( )	( )	( )

B. PRODUCT/SERVICE	1	2	3	4	5
1. Improvement in quality of existing products	( )	( )	( )	( )	( )
2. Introduction of new products	( )	( )	( )	( )	( )
3. Offering of after – sales service	( )	( )	( )	( )	( )
4. Emphasis on product contamination checks	( )	( )	( )	( )	( )
Others (Please specify)					
____________________	( )	( )	( )	( )	( )

C. DISTRIBUTION	1	2	3	4	5
1. Use of various distribution channels	( )	( )	( )	( )	( )
2. Opening of branches at strategic areas	( )	( )	( )	( )	( )
Others (Please specify)					
____________________	( )	( )	( )	( )	( )

D. PROMOTION	1	2	3	4	5
1. Advertising expenditure	( )	( )	( )	( )	( )
2. Emphasizing on suitability to local conditions in ads	( )	( )	( )	( )	( )
3. Use of various advertising media	( )	( )	( )	( )	( )
Others (Please specify)					
____________________	( )	( )	( )	( )	( )

E. RESEARCH AND DEVELOPMENT	1	2	3	4	5
1. Marketing research expenditure to identify customer needs	( )	( )	( )	( )	( )
2. Information on competitors					
- Product	( )	( )	( )	( )	( )
- Price	( )	( )	( )	( )	( )
- Promotion	( )	( )	( )	( )	( )
- Distribution	( )	( )	( )	( )	( )
- Production method	( )	( )	( )	( )	( )
- Other (Please specify)	( )	( )	( )	( )	( )
3. Investment in training and development programs	( )	( )	( )	( )	( )
4. Hiring of experts/facilitators/consultants	( )	( )	( )	( )	( )
Others (Please specify) ____________	( )	( )	( )	( )	( )

F. MARKET PRE-DISPOSITIONS	1	2	3	4	5
1. Focus on certain market segments	( )	( )	( )	( )	( )
2. Initiative to seeking new domestic markets	( )	( )	( )	( )	( )
3. Initiative in seeking new foreign market niches	( )	( )	( )	( )	( )
4. Development of models to suit the budgets of potential customers	( )	( )	( )	( )	( )

5. Identify and target buyers of your products	( )	( )	( )	( )	( )
6. Emphasis on relationship marketing	( )	( )	( )	( )	( )
Others (Please specify)					
__________________________	( )	( )	( )	( )	( )

G. PERSONNEL (STAFF)	1	2	3	4	5
1. Selection of qualified staff	( )	( )	( )	( )	( )
2. Training	( )	( )	( )	( )	( )
3. Retrenchment/ Rationalization	( )	( )	( )	( )	( )
Others (Please specify)					
__________________________	( )	( )	( )	( )	( )

H. PROCESSES	1	2	3	4	5
1. Fast service delivery	( )	( )	( )	( )	( )
2. Computerised records	( )	( )	( )	( )	( )
Others (Please specify)					
__________________________	( )	( )	( )	( )	( )

I. SOCIAL RESPONSIBILITY	1	2	3	4	5
1. Event sponsorship	( )	( )	( )	( )	( )
2. Donations to the needy	( )	( )	( )	( )	( )
3. Environment, health and safety issues	( )	( )	( )	( )	( )
Others (Please specify)					
______________________	( )	( )	( )	( )	( )

J. COST STRUCTURE	1	2	3	4	5
1. Staff retrenchment/rationalization	( )	( )	( )	( )	( )
2. Automation	( )	( )	( )	( )	( )
Others (Please specify)					
______________________	( )	( )	( )	( )	( )

K. DIFFERENTIATION	1	2	3	4	5
1. Branding	( )	( )	( )	( )	( )
2. Improvement of customer service	( )	( )	( )	( )	( )
Others please specify					
1. ______________________	( )	( )	( )	( )	( )
2. ______________________	( )	( )	( )	( )	( )