RESPONSE STRATEGIES OF TOBACCO COMPANIES IN KENYA TO GLOBAL COMPETITION

BY

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DECLARATION

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

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The project has been submitted for examination with my approval as the University supervisor.

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DEDICATION

To my late dad TITUS KAVEKE MULUVI whose wisdom and value for education has inspired me. Rest in Peace.

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I would like to acknowledge a number of people without whom my academic endeavours would not have come this far.

God almighty for his eternal love, protection and blessings.

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ABBREVIATIONS/ACCRONYMS

B.A.T Kenya	- British American Tobacco Kenya
M.T.K	- Mastermind Tobacco Kenya
ASU 30	- Adult Smoker under 30 years.
VFM	- Value for Money
KRA	- Kenya revenue Authority
I.T	- Information Technology
ISO	- International Standardization for Organizations
KAHC	- Kenya Association of Hotel Keepers and caterers

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ABSTRACT

This study sought to find out the response strategic of tobacco manufacturing companies in Kenya to global competition. With the advent of globalisation and hence the creation of a borderless business world, many businesses have been forced to take some deliberate and strategic measures to defend their market shares and to grow their businesses in the face of global competition.

The study is a case study of two tobacco manufacturers in Kenya namely British American tobacco and Mastermind tobacco Kenya, which are the key players in the tobacco industry. The objective of the study was to find out the response strategies of these companies to global competition and further how the strategies differ between the two companies. Data for this study was primary data collected by the researcher through personal interview with the heads of department's namely marketing, business development and manufacturing. The data was then analysed using content analysis.

Findings from this study revealed that indeed the tobacco companies were part of a globalised business world and that global competition had a direct impact on their operations and strategies. The firms have thus adapted some response strategies in an effort to defend their market shares and remain at the competitive edge. Brand rationalisation, restructuring, supply chain strategies, information technology, collaboration with Government in issues as diverse as taxation and tobacco regulation as well as societal responses including social reporting and corporate social responsibility came out as the key responses by these companies to global competition.

The study further established that these response strategies were to a larger extent similar between these companies merely differing slightly on their scope with BAT Kenya being a subsidiary of a multinational company and MTK a locally owned private company. Arising from the findings it was suggested that a study can be done on understanding the responses of firms in other industries to global competition as well as the factors that influence and inform multinational companies in setting operation in a certain country.

CHAPTER 1: INTRODUCTION

1:1 BACKGROUND

1.1.1 Response strategies

Organizations do not exist and operate in a vacuum; rather they operate within an environment. Organizations are indeed open systems which means that they are influenced and do influence the environment in which they operate in. unlike in the past, today's environment is not only turbulent and dynamic but also changes in very unpredictable ways. This constantly poses new challenges in the management of modern organizations. All organizations are therefore environment dependent.

Change is the most striking feature of contemporary business environment. Change is ubiquitous, meaning that it affects every industry, geography and every firm. Given the pervasive nature of change, the key challenge then becomes how to predict and manage the change. Thompson (1997) defines strategic adaptations as changes that take place over time to the strategies and objectives of a firm. Such changes can be gradual, evolutionary, dramatic or even evolutionary.

Ansoff (1988) observes that firms must adapt new strategies to new environmental conditions. A changed competitive environment calls for new strategies that in turn call for reformed organizational capability. Different firms respond differently to changing environment. Some resorting to changing their products offering, divesting and diversifying, brand rationalization, mergers & take-overs, while others fall back on technology to ensure operational effectiveness.

Grant (2000) notes that the survival and success of an organization is only possible when the organization creates and maintains a match between its strategy and the environment, and also between its internal capability and the strategy. The environment is not only dynamic but also turbulent, discontinuous and unpredictable. Response strategies therefore require organizations to change their strategy to match its environment and also to re-look at their internal capabilities and align them to the strategy. Organizations need to utilise both their tangible and intangible assets to achieve and consistently maintain that strategic fit.

Ansoff and McDonnell (1990) acknowledge that response strategies involve changes to the organizations strategic behaviour. Such responses may take many forms depending on the organizations capability and the environment in which it operates. A mismatch between an organizations strategy and its environment leads to a strategy gap, whereas a mismatch between the firm's internal capabilities and its strategy leads to a capability gap. It is therefore imperative for managers to strike a balance between the organizations strategy, capabilities and external environment. The author's further state that an organizations strategy is supposed to link the organizations capabilities to its operating environment. This is because different types of change have different characteristics and pose varying challenges and opportunities to the organization and therefore managers need to have the ability to discern this and be able to put in place the right strategies and corresponding capabilities.

Mintzberg (1987) asserts that one of the key roles of modern day manager is that of being a predictor and responder of change. He contends that, due to the rapid and unpredictable nature of this change, managers will often be required to take some decisive steps in order to stabilize the organization, failure to which the companies survival and continuity is jeopardised.

Organizations being open systems, they react to the changes in the environment by taking actions and steps that not only cushions the organizations against negative forces but also enables the organization to cash in on any opportunities arising out of the changed environment. These are referred to as response strategies, and they require organizations to adapt their strategy to their operating environment and also involve the re-configuration of internal resources and capabilities to match the adopted strategy. According to Ansoff and McDonnell, (1989), it is imperative for organizations to harness both their tangible and intangible assets in an effort to strike a strategic fit between the environment and their strategy. It is also critical for organizations to constantly monitor the changes in the environment and adjust their strategies to match such changes. It is equally important for organizations to match their capabilities to their strategy in order to stay at the competitive edge.

Grundy (1995) argues that responsiveness and flexibility are increasingly becoming important factors determining the success of an organization.Business organization are currently operating in a global market, where the flow of capital and information is global. Consumer buying patterns are also changing as global marketing is leading to more homogeneous buying patterns. The internet has facilitated global shopping where organizations are able to display their product offerings via the World Wide Web (www) and deliver products directly to consumers.

When running a business, the key strategic challenge remains managing change. The most successful strategy in a rapidly changing and unpredictable environment therefore remains "competing on the edge." According to Brown (1989), competing on the edge refers to the strategy of creating a relentless flow of competitive advantages that, taken together, form a semi coherent strategic direction. He further argues that the key driver of superior performance is the ability to survive, change, and ultimately re-invent the firm constantly over time. Generally, there are three ways of responding to change and which ultimately, determine the firm's competitive position. These are: reaction to change, which is a defensive tactic and unlikely to create fresh opportunities but is nevertheless a necessary weapon in managing change in the environment. Managing change also calls for anticipation, which involves gaining insights into what is likely to happen and positioning the organization for that future. It involves looking ahead into the needs of the global market and lining ahead of time the right resources. However the most effective way of managing the changes in the environment is by leading change. This means creating the change to which others must react and basically being ahead of change and even changing the rules of the game. For instance, by launching new products, raising industry standards or re defining customer expectations.

Response strategies by organizations to the changes in the operating environment therefore remain at the core of the business survival and success because it enables organizations to take cognisance of the opportunities and threats posed to them by various environmental changes, and create a competitive advantage by formulating the right strategies to address such changes.

1.1.2 Tobacco Companies

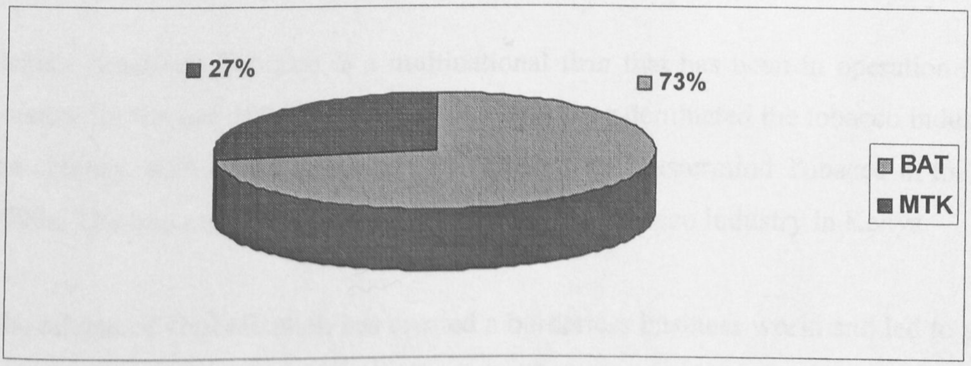
British American Tobacco was formed in 1902 when, to end an intense trade war, the Imperial Tobacco Company of the UK and the American Tobacco Company of the US formed a joint venture namely the British American Tobacco limited, trading in countries as diverse as Canada, China, Germany, South Africa and Australia.

British American Tobacco started its operations in Kenya in 1907 becoming a public Limited company in 1969 by listing 20% of its shareholding on the NSE. British American tobacco is the world's most international tobacco group and the second largest market listed tobacco group, with more than 300 brands in its portfolio sold over 180 markets. Tobacco products have been used by various communities since time immemorial, referred in local dialects by various names such as "mbaki", "tumbaku", "kilaiku" which was either chewed or inhaled by users.

British American Tobacco Kenya is the largest tobacco company in Kenya, with a market share of 73%, in an estimated 6 billion sticks market. In terms of contributions to the economy, the company has over the last four years contributed an average of Kshs. 5 billion annually to the exchequer in form of taxes and excise, indeed in 2006; the company contributed Kshs. 5.6 billion in taxes according o the 2006 Annual Report. The BAT group has four Global Brands namely Dunhill, Kent, Lucky Strike and Pall Mall. These are believed to offer the best prospects for the group's long term organic growth. In Kenya two of these brands i.e. DUNHILL and PALLMALL have been launched.

Mastermind Tobacco Kenya on the other hand is a local tobacco company, fairly new in the industry having started its operations in 1990. The company has grown over the years to become a main player in the industry with a market share of 27% according to Kenya Revenue Authorities statistics. The company has traditionally concentrated on the lower tier of the cigarette market in the country with its flagship brands Super match, Ralli and Rocket. Recently the company made a debut into the top tier of the cigarette industry by launching Summit Lights, positioned at the premium segment.

Fig 1: <u>Market share of the tobacco firms in Kenya.</u>



Source: K.R.A 2007

Key: B.A.T – British American Tobacco

M.T.K – Mastermind Tobacco

1. 2 Statement of Research problem

British American Tobacco is a multinational firm that has been in operation in this country for the last 100 years. It has for a long time dominated the tobacco industry in the country, with a near monopoly till the entry of Mastermind Tobacco in the early 1990s. The two companies currently dominate the tobacco industry in Kenya.

The advent of Globalization has created a borderless business world and led to global competition, convergence of consumer needs and wants and hence need to offer a unified brand portfolio. The industry has also seen Increased anti-tobacco regulation across the globe which has forced the companies to find new ways of doing business, Punitive fiscal policies deliberately driven by governments to discourage consumption of tobacco products through high taxation, Increased competition including illicit trade, Governments deliberately discouraging farmers from growing tobacco crop and focussing on other cash crops such as sunflowers and cotton as well as Litigation against tobacco manufacturers. These factors have been more defined and profound in the developed world and this has driven multinational tobacco companies to look for newer markets mostly in the third world countries where tobacco laws, taxation and litigations are minimal. Tobacco companies in Kenya have not been spared by these developments in the business world and therefore the study sought to establish and document the responses that tobacco companies in Kenya have put in place to achieve and sustain a competitive edge at the global market place.

The study looked into the concept of global competition brought about by an increasingly borderless business world and the response strategies adopted by the tobacco manufacturers in Kenya to counter global competition, the study further sought to establish how the response strategies differ between the two main local players, B.A.T Kenya and M.T.K. Previous studies include that by Jacqueline Mwanthi (2003) looking to the strategic responses of B.A.T Kenya to current environmental challenges and another study by Ngunjiri Irene (2005) looking at the responses of tobacco manufacturing firms in Kenya to changes in the industry, a case of B.A.T Kenya.

1.3 Objectives of the Study.

The objectives of this study are:

i. To determine the response strategies by firms in the tobacco industry to global competition.
ii. Establish whether these response strategies differ between British American Tobacco Kenya and Mastermind Tobacco.

1.4 Significance of the Study

The findings of this research paper will be useful to various groups, which are: British American Tobacco and Mastermind Tobacco Limited who will be able to use the findings herein to compare their response strategies to those of the other company and hence learn from each other.

Strategic management practitioners who will find the information documented herein useful in understanding how organizations are responding to global competition.

Strategic management and business scholars in general will be able to understand how global competition is shaping the operations of modern day organizations.

This study will also be a basis for further research on global competition and how organizations are adapting to global competition.

CHAPTER TWO: LITERATURE REVIEW

2.1 Business Environment

"The only constant in our environment is that everything is changing. We have to take advantage of the change and not let it take advantage of us. We have to be ahead of the game." Michael Dell, Dell Computer Corporation.

Pearce & Robinson (2000) define a firm's business environment as consisting of all the conditions and forces that affect its strategic options and defines its competitive situation. There are a number of factors that influence a firm's choice of direction and action and therefore its organizational structure and internal capabilities. The authors argue that the firms do not exist in a vacuum, but rather in an environment, comprised of the internal and external environments. The internal environment is composed of such aspects as the firm's asset base, its organizational configuration, its human resource and other aspects that are within the firms control in its pursuit of success and sustained profitability.

Firms are environmentally dependent because they source their inputs such as capital, raw materials and human resources from it, and produce their outputs in the form of products and services to it (Cole 1990). According to Pearce & Robinson (2000), the external environment is beyond the firms control and affects all firms on an equal scale. It comprises of: the remote, industry and the operating environments. The remote environment consists of the economic, social, political, technological and ecological factors. These present the organization with opportunities, threats and constraints, and therefore ultimately influence the firm's choice of strategy.

Industry environment on the other hand comprises of the forces that shape competition in a particular industry. According to Michael Porter (1980), these five forces are: rivalry among existing firms, threat of new entrants, substitute products, and increased bargaining power of suppliers and buyers. These again influence a firm's choice of strategies.

Operating environment comprises the competitive factors that face a firm and influences its ability to Marshall the requisite resources to enable it stay at the competitive edge. These include such aspects as the company's customer base, employees, technology, globalization/consumerism, corporate image and competitive positioning. Managers are faced with a task of striking a strategic fit between the firm's internal and external environments in order to achieve and sustain a competitive edge.

Perhaps the most influential model of business strategy, and one which is readily applicable in an international business environment context, Is that by Michael E. Porter 1980. Porter shows that competition in an industry is influenced by five factors:

Figure 1.

PORTER FIVE TYPES OF COMPETITIVE FORCE.

1. Industry competitors: rivalry among existing firms.
2. Potential Entrants: Threat of new entrants.
3. Substitutes: Threat of substitute products/services.
4. Suppliers: Bargaining power of suppliers.
5. Buyers: bargaining power of purchasers.

Source: adapted from porter, Michael E; competitive strategy, New York: The Free Press, 1980, Chapter1, Fig1.

Ansoff and McDonell (1990) argue that changes in the organizations behaviour are necessary if success in the transformation of the future environment is to be assured. They noted that such changes which touch on the organizations strategy and capability need to be systematically identified through the strategic diagnosis approach. Chandler (1962), Andrews (1971), daft (1986) and Porter (1998) in their different writings, all concur on the fact that indeed organizations are environment dependent. An organizations success therefore lies in its ability to proactively anticipate and adapt to the changes in the environment. Aquilar (1967) argues that, managers should indeed look beyond the firms immediate surrounding and have an industry wide view, at a global scale.

Porter (1991) explains the concept of dynamic strategic fit. He asserts that, firms create and sustain competitive advantage because of their capacity to continuously improve, innovate and upgrade their competitive advantage over time. He further describes upgrading as the process of shifting advantages throughout the value chain to more sophisticated types and employing higher levels of skill and technology.

Suave (2002) argues that the environment is a critical factor in any organizations success and survival. He further asserts that these environmental forces are very dynamic and interactive such that the impact of any single aspect cannot be wholly disassociated from those of other aspects. The challenge is therefore for managers to device effective strategies in the face of unpredictability and dynamism of this environment.

Hoskison et al (1997), argues that the external environment plays a very important role in the growth and profitability of any organization. Indeed, many companies compete on a global scale rather than a domestic front. Therefore, an important factor in the strategic management process of any business is the increasing internationalization of business activity. Aosa (1992) acknowledges that environmental turbulence normally tends to pose challenges to management. According to Ansoff (1990), this turbulence can be defined as the combined measure of the changeability and predictability of the environment.

2.2 The Concept of Strategy

What is strategy? Basically strategy is about two things: deciding where you want your business to go and figuring out how to get there. (Brown 1998)

The strategy process determines the ongoing development and change in the international firm in terms of scope, business idea, action orientation, organizing principles, nature of managerial work, dominating values and converging norms. (Vernom 1997)

Johnson and Scholes (1999) define strategy as "The direction and scope of an organization over the long term; which achieves advantage for the organization through its configuration of resources within a changing environment, to meet the needs of markets and fulfil stakeholder expectations."

Rugman (1980) defines strategy for a multinational firm as the long term planning, basically qualitative and pragmatic, which integrates and directs the functional areas into an overall company goal.

Mintzberg (1987) defines strategy as a plan, ploy, pattern, position and perspective. He asserts that it is a plan that can be defined and followed. As a ploy it can be seen as a move in a competitive advantage game. It is a pattern of consistent behaviour logically thought out, and as a perspective: it is a unique way of perceiving the world. As a position, it is a means of locating an organization in its environment. Mitzberg further argues that strategy making is about changing perspectives and/or positions.

Ansoff (1988) argues that a lot of interest in strategy has been caused by the realization that the firm's environment has become progressively changeable, unpredictable and discontinuous from the past, and as a result, objectives alone are insufficient as decision rules for guiding the firm's strategic re-orientation as it adapts to the changing environment.

Porter (1996) defines strategy as the creation of a unique and valuable position involving a different set of activities. This means that, to achieve a unique position, an organization must make trade offs in determining what to and what not to in performing activities differently from its rivals. The strategic managers' task therefore, is to have a thorough understanding of the environment they operate in and strike a fit between their strategy and the environment.

According to Grant (2000), strategy is about winning. The external environment influences a firm's decision and performance. Strategy determines how a firm deploys its resources within its environment so as to meet its long term objectives. For a strategy to be successful, it must be consistent with the firm's goals and values, resources and capabilities, and the external environment. A good strategy enables an organization to effectively match its capabilities with its environment, utilising its strengths to take advantage of opportunities, whilst proactively addressing its weaknesses and countering threats posed by external environment. He further argues that the ability to identify and occupy the attractive segments of an industry is critical to the success of an organization.

Cole (1997) defines strategic management as a process, directed by top management, but engaged in through out the organization, including the involvement of those concerned with satisfying customers' legitimate needs. It ensures the attainment of those fundamental goals through the adoption of adequate decision making mechanisms and the provision of adequate resources for the planned direction of the organization over a given period.

Ansoff and McDonnell (1990) define strategic management as a process through which a firm manages its relationship with the environment in which it operates. It consists of strategic planning, capability planning and management of change.

Pearce and Robinson (1997) argue that, strategy can be seen as either building defences against competitive forces, or as the finding of positions in the industry where competition forces are weakest.

Hill and Jones (2001) acknowledge that strategies that an organization pursues have a major impact on its performance relative to its peers.

2.3 Globalization

"Economics, not politics, defines the landscape on which all else must operate." Deresky, H. (1998)

The researcher studied the response strategies of tobacco companies in Kenya to global competition, and therefore the need to define and understand what globalization is. Following the demise of USSR and communism ideology, the world ushered in a new world order, from a bipolar to a unipolar state. This led to radical changes in political, social and economic scene across the globe. New concepts like multiparty democracy, transparency, accountability, globalization and others were coined. Of all these developments, globalization is without doubt the most pervasive and its practical manifestations in the business and economic fronts have swept the world like a wild fire in dry weather. The Kenyan economic and political environment has not been spared by these global patterns, and therefore organizations have had to constantly adjust and adapt their operations and internal configurations to reflect these changes.

According to Pearce & Robinson (1997), globalization refers to the strategy of approaching world wide markets with standardised products. According to them such markets are as a result of: end market consumers preference for low priced, standardised products rather than high priced customised products, and secondly the urge by global corporations to use their world wide operations to compete in local markets.

Lloyd Byars (19191) defines a global industry as one in which the strategic position of competitors in major geographic or national markets are fundamentally affected by their overall global position. According to Rugman (1980), global competitive strategy can be defined as the formulation of plans to place the MNE in a position where it can survive and prosper relative to its global competitors. The successful implementation of such strategy depends on the effective performance of the internal market of the MNE and the resilience of the firm to changes in environmental forces.

Deresky (1998) defines Globalism as global competition characterised by networks that bind countries, institutions and people in an interdependent global economy. The invisible hand of global competition is being propelled by the phenomenon of an increasingly borderless world.

Welch & Luostarinen (1988) argue that internationalization is the process of increasing involvement in international operations across borders. The strategy process determines the ongoing development and change in the international firm In terms of scope, business idea, action orientation, organising principles, nature of managerial work, dominating values and converging norms.

Lyles (1990) argued that the internationalization theme regarding global competition was viewed as the decade's most important area of strategic management research. Porter (1980) suggests that globalization is triggered by distinct environmental factors such as the availability of increased economies of scale, declining national economic and social circumstances and reduced government constraints. Global competition is therefore the battle that companies wage in international markets in order to achieve competitive advantage over one another.

Globalization is more concerned with the remote/external environment. These are all conditions that affect firm's strategic options but are typically beyond its control. According to Kotter & Armstrong (1990), the forces at work in the environment are dynamic and include natural, economic, political, technological and social factors. Aosa (1992) acknowledged that environmental turbulence normally tends to pose challenges to management. Some of the most significant changes in the environment experienced in the 1990's include globalization, liberalization, privatization and hence opening up of domestic markets to global competition.

As globalization flourishes, many of the barriers that stopped cross border commerce have fallen, and thus the increased presence of international companies in various countries. Increasingly success of organizations will depend on correctly identifying which places best suit which of the firm's activities, and now that judgement rather than tariff barriers will determine location, picking the best place to invest will become harder and more important.

Globalization refers to the strategy of approaching world wide markets with standardised products (pearse & Robinson 1997); according to them such markets are as a result of: End market consumers preference for low priced , standardised products rather than high priced customised products as well as global corporations using their worldwide operations to compete in local markets.

A number of benefits accrue to host countries by virtue of multinationals operations. These include; creation of employment opportunities to the local people, provision of goods and services at a lower price, utilization of excess capacity/resources, contributions to economic growth of the host country through taxes, licences and other mandatory contributions.

A symbiotic relationship exists between the multinational and the host country because the company gets to benefit from local resources available at the host country, cheap labour and expertise, new markets for their goods and services, low costs of production, tax holidays and stable economic and political climates in some of the host countries.

Globalization does call for global strategies, which can be seen as the alternatives chosen by a particular organization in order to compete in global industries on a worldwide, coordinated basis. Indeed, there are numerous examples of erstwhile multinationals that are rapidly redefining their portfolios and branding to fit into the changed times as the world shrinks and the customer preferences assume a uniform look. For instance in early 2000, Unilever, one of the oldest multinationals whose franchise was previously known as East African Industries (E.A.I) in Kenya, announced that it would reduce the number of its brands from 1600 to 400, a decision made at its head office and cascaded down its global network, that's how some of its flagship brands like Kimbo and Cowboy ended up in BIDCO, its rival. (MANAGEMENT, A Publication of Kenya Institute of Management, October 2004)

Pursuit of competitive advantage has been at the core of most organizations decisions to operate globally. According to porter (1998), competitive advantage refers to the value a firm is able to create for its customers that exceeds the cost of creating the value. Porter suggests three generic strategies or approaches to achieving competitive advantage which include; product differentiation, cost leadership and focus.

Globalization has been used by multinational corporations as an effective competitive weapon. The penetration of foreign markets can help reduce cash flows from a foreign competitor local operations and result to lost opportunities. It is important therefore for Global corporations to understand and take cognisance of the strategic opportunities and threats posed to them in the global markets.

2.4 Response Strategies

Hoskison et al (1997) defines a response strategy as a move taken to counter the effects of environmental changes. They assert that these responses are taken by organizations in order to adapt to the changes in the environment. Response strategies consist of action and decisions that result in the formulation and implementation of plans of actions intended at enabling the firm achieve its objectives. Indeed response strategies enable a firm to achieve and maintain a competitive advantage.

Ansoff and McDonnell (1990) argued that response strategies involve changes in the firms' behaviour and actions in an effort to pursue set goals and objectives. Response strategies are necessary ingredients in transforming future environment and ensuring success in a rapidly changing environment. They argue that changes in the environment pose threats as well as create opportunities to the organization, and therefore the organization reacts with strategies to exploit opportunities as well as counter the organization against threats. The choice of response strategies may also be influenced by the speed of changes in the environment, because whereas gradual changes may afford the firm ample time to formulate response strategies, a drastic change in the operating environment may call for faster response. The authors argue that assessment of the environmental threats and opportunities as well as the organizational strengths and weaknesses is key to the development of response strategies.

Migunde (2000) noted that strategic responses are those choices that organizations make in order to address pertinent issues that arise from internal and external analysis of the firm. Some of the strategic responses include marketing, restructuring, diversification, integration, culture change, pricing, new product development, as well as the porter's generic strategies of differentiation, cost leadership and focus.

2.4.1 Porters Generic Strategies

Porter (1985) argued that an organization can enhance its competitiveness in the ever changing operating environment by adopting any of the three strategies namely, cost leadership, differentiation and focus.

According to porter, cost leadership entails proposing value to the customer based on price. Firms adopting this strategy must however lower their prices without compromising quality. He further argues that production efficiency is important in this strategy in order to keep costs of production low and consequently transfer this cost benefit to the customer in form of lower prices. The author proposes the use of the value chain as a basis of analysing costs because each value activity has its own cost structure. The aim is to ultimately have a cumulative lower cost of performing value activities. Some of the ways firms can gain cost advantage include control of cost drivers, reconfiguration of the value chain including different ways of operation, more efficient designs, products, distribution and marketing of products, acquisition of new raw materials s well as automation.

Lalampaa (2006) argues that the aim of this response strategy is to achieve overall lower costs than other players in the industry without reducing comparable quality. Mugambi (2003) asserts that cost leadership can be achieved by a firm adopting functional policies and resorting to aggressive construction of efficient scale facilities. He further argues that quality assurance process may also be elaborate to reduce costs of customer delays and cost of error.

Differentiation strategy on the other hand emphasises uniqueness, by creating some features in a product or service that are perceived to be unique and of value to the customer. Differentiation may call for charging of premium prices and therefore the role of the manager is to ensure that the superior performance of the product or service justifies the premium price and also exceeds the cost of uniqueness. Barman (2002) argues that differentiation strategy is a strategy used by non profit organizations when faced with a crowded market. Such firms seek to assert their uniqueness and superiority over rivals.

Lalampaa (2006) argues that differentiation strategy strives to achieve industry wide recognition of different and superior products and services as compared to other players. Focus is the third strategy which emphasises personalised attention. It involves the identification of a small client base (niche) and giving specialized attention which leads to loyalty. Porter (1996) argues that focussing by in this way, it becomes possible for an organization to dominate I chosen areas. Mugambi (2003) argues that a focuser selects a segment or group of segments and tailors a firm's strategy to serve them at the exclusion of others.

2.4.2 Restructuring

Thompson (1997) argues that restructuring involves radical business process re engineering as the business searches for new ways through which performance can be improved. They further assert that this calls for scrutiny of all organizational functions and individual jobs as the process may differ with the existing departmental structures. Senior (997) identifies the triggers for organisational restructuring as the installation of new information technology equipment, process intensification or extension as well as redesigning of jobs, right sizing and redundancies.

Hilson and Rosenfield (1996) defined structure as the established patter of relationships between component parts of an organization outlining communication, control and authority patterns. They further argue that structure distinguishes the parts of the organization and delineates the relationship between them hence one of the key processes of restructuring is business process re engineering. Hammer (1996) asserts that indeed organizations can greatly improve their efficiency and quality by focusing on customers and processes that create value for them such as outsourcing and rightsizing/retrenchment. He further defines outsourcing as the process where the company performs some value creation activities and leaves others for different companies to perform. This enables firms to concentrate on their core activities while leaving non core activities to independent firms that can perform them better this leads to cost gains, raises efficiency and hence more profitability.

Thompson and Strickland (1993) argues that retrenchment involves a process of downsizing, entailing the cutting on the number of employees and activities undertaken. They see retrenchment as result of restructuring strategy and that firms undertake this process when faced with adverse market conditions such as high costs of operation and declinining sales. They argue that the aim of this strategy is to cut costs as well as improve efficiency by focusing the limited resources at the right activities and in line with the firm's long term objectives for growth and profitability.

2.4.3 Marketing

Marketing is a managerial and social process whish involves the identification of needs and wants of the customers so as to provide goods and services that satisfy those needs and wants. Marketing enables an organization to give its outputs in the form of products and services to the final consumer and therefore is key to any strategic moves that an organization undertakes with regard to changes in the environment and particularly to enhance the firms' competitiveness.

Kottler (1997) argues that firms resort to relationship marketing as a response strategy to challenges pose by a turbulent environment. This entails a process by which an organization seeks to attract and maintain customers and consequently convert them into loyal customers and brand ambassadors by encouraging others to try the company's products or services. A good and long term relationship ensues as the company delivers high quality offerings.

Kanuk and schiffman (1994) asserts that firms do respond to changes in their operating environment by improving on the quality of their products/services as the customers often judge the quality of a product or service on the basis of a variety of information cues

2.4.4 TECHNOLOGY

Technology remains one of the most dynamic variables in the business world. It is therefore imperative for organizations to update their technologies so as to remain competitive in the modern world. Information technology and especially the internet has facilitated global marketing by way of providing organizations with an interface with their consumers.

Grundy (1995) argues that responsiveness and flexibility are increasingly becoming important factors determining the success of an organization. Business organisations are currently operating in a global market, where the flow of capital and information is global. Consumer buying patters are also changing as more technological advancements are made at the market place. The internet has facilitated global shopping where organizations are able to display their product offerings via the worldwide web (www) and deliver products directly to consumers.

Porter (1985) asserts that, technological change, especially information, is one of the important factors that can alter organisations operations because all the activities within an organization will generate and utilize information. He argues that IT can create new businesses from within a company's current activities.

Luffman (1996) further argues that the way a modern organisation views its business, customers and competition is of great importance in terms of aligning its business IT strategy. Information technology is useful in automation of processes and augmenting the skills of the staff.

Information still remains one of the most effective competitive tool and a source of added value as it enhances the efficiency and effectiveness of every activity in the value chain. Organizations further require feedback on the various activities so as to act on the customer's expectations.

Rayport and Sviokla (1995) give some of the IT variables that enhances an organizational competitiveness as real time systems connectivity as well as efficiency of telecommunication systems.

2.4.5 OTHER RESPONSE STRATEGIES

Other response strategies at the disposal of any organisation wishing to enhance its competitiveness include mergers and acquisitions, strategic enhances, joint ventures and vertical integration.

A merger is a strategy where an organisation seeks growth and development by involving other existing organisations. Whereas acquisitions involves a strategy whereby an organisation develops its resources and competencies by taking over another organization. The two organisations join together and acquire a new identity.

Byars (1991) argues that mergers and acquisitions allows for growth or development of an organization to take place without the organization involved having to invest the level of resources that would be necessary if they were to operate individually. Johnson and Scholes (2001) give the reason for mergers and acquisitions as lack of resources and competencies to develop a strategy internally as well as due to other financial motives and cost efficiencies.

Strategic alliances offer an opportunity for companies to collaborate in doing business thereby overcoming individual disadvantages. They are as a result of resource gaps. Johnson and Scholes (2001) define strategic alliances as a situation where two or more organizations collaborate by sharing resources and activities to pursue a common strategy. They see strategic alliances as a cooperation agreements formed between a company and others to achieve certain strategies goals. In addition, alliances can be within the same market or across different markets due to globalisation. Increasing collaborations among competitors are becoming more popular as globalisation bites and environmental complexity increases Burnes (2000) Argues that strategic alliances enables organisations to exploit opportunities and share ideas and experiences.

Joint ventures are strategic alliances that occur when two or more organizations enter into a temporary partnership or consortium for purposes of exploiting opportunities presented by a changed environment; the strategy is defensive because two firms come together for a common cause and to enhance their competitiveness.

Vertical integration is a strategy where a company results into producing its own inputs or disposing of its own outputs hence backward and forward integration respectively. This strategy builds barriers to new competition, protects product quality, and leads to improved scheduling as well as facilitating investment in specialised assets.

Shollei (1999) argues that more and more firms seek the above collaboration strategies to enable them improve their competitiveness and operate effectively as a result of increased forces of globalisation. Pooling of resources becomes necessary service some market opportunities at the global market place require large capital outlay making it difficult for individual firms to exploit such opportunities collaborations also reduce the costs of differentiation and enhances competitiveness.

However all these response strategies are not mutually exclusive of each other and can be used to supplement each other depending on the conditions facing an organization at any given time. Glueck (1978) argues that combination strategies may be more appropriate and necessary in large multinational organisations where the circumstances faced by different activities are varied.

Burnes (2004) further argues that there are no exhaustive strategies because each organization is free to formulate its own strategic variant with regard to its own unique

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The research was a case study of two companies namely British American Tobacco Kenya and Mastermind Tobacco Kenya. The reason for choosing the companies is that they are the dominant tobacco companies in Kenya. B.A.T is one of the oldest multinationals in the country which has sustained profitable operations in Kenya for the last 100 years, despite the changing environment. M.T.K on the other hand is a local company fairly new in the industry but which has managed to carve a significant share of market for its products.

The tobacco industry in Kenya is dominated by the two companies and therefore a case study was the most appropriate research method. Jacqueline (2003) and Ngunjiri (2005) have successfully used case studies in previous studies.

3.2 Data Collection

Data collection was done through personal interviews directed to the middle to top management of the company involved in the running and decision making of their respective companies. The interviewees by virtue of their positions were thought to be more conversant with the strategic issues affecting the industry and the strategic direction their respective firms were pursuing. The researcher interviewed three top managers in each company, namely, the head of marketing, business development manager and the head of manufacturing.

3.3 Data Analysis

The researcher collected qualitative data and therefore used content analysis as the most appropriate method of data analysis. The researcher analysed the data obtained and focused on those aspects that highlighted the company's response strategies to global competition. Previous studies that have successfully used content analysis include: mwanthi (2003), Ngunjiri (2005) and Kiptugen (2003)

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter documents the findings of the response strategies of tobacco companies in Kenya to global competition. Data was collected mainly through personal interviews with middle to top level managers at the two tobacco companies dominating the industry in Kenya, British American Tobacco Kenya and Mastermind tobacco Kenya. Data collected was mainly qualitative data and therefore the researcher used content analysis to analyse the data.

4.2 Tobacco Company Profiles

This section seeks to document the information obtained from the two companies with regard to their ownership structures and also the nature of businesses they are engaged in. Ownership of the company being either local or foreign may determine to some extent the company's autonomy in terms of strategy formulation and implementation, because whereas a locally owned company may be more faster in terms of responsiveness to change in the business environment, foreign owned companies seem to be tied to their corporate heads and most of the strategies employed are supposed to be in line with the overall strategies for the group.

4.2.1 Ownership structures

British American Tobacco Kenya is one of the strategic business Units (SBU's) of British American tobacco group. Its existence in the country dates back to 1907. it is a publicly quoted company having floated its share at the Nairobi stock Exchange (NSE) in 1969, where it floated 20% of its shares o the public. The company has an issue of 100,000,000 shares with a par value of kshs.10. Its shares have maintained a strong market value over the years trading at kshs 158 as at 10/09/07.The Company being a multinational is therefore both foreign and locally owned.

Table 1

TOP 10 SHAREHOLDERS AS AT 20TH MARCH 2007

NO	A/C NO	NAME	SHARES	%
1	9000361	Molen steegh Investment BV	60000000	60
2	387200&665258	Board of trustees NSSF	16261558	16.26
3	469696	Old mutual Investment Co. Ltd	1077734	1.07
4	701	Barclays (Kenya) Nominees ltd a/c 1256	897000	0.89
5	1651	Barclays(Kenya)Nominees ltd a/c 1853	800032	0.80
6	1350811	Jubilee insurance Co. of Kenya ltd	766415	0.76
7	212792	KCB Nominees ltd A/c 744	699206	0.69
8	12068	KCB Nominees ltd A/c 769g	500200	0.50
9	149047	Insurance co. of East Africa ltd-Pooled	439978	0.44
10	2364	Barclays (Kenya)nominees ltd a/c 9230	427072	0.42
	Various	other shareholders(5029)	18130805	18.17
	5039	Total	100,000,000	100

Source: B.A.T annual review & financial statement 2006

The above table shows the ownership of the company as at march 2007.From the tables it is clearly evident that the company is largely foreign owned being a subsidiary of B.A.T group. Foreign shareholders control a whooping 60% of the total shares with the minority shareholding 40% going to local and regional investors both individuals and institutions. This explains why the company's strategic direction is usually influenced by the corporate head because they have the controlling stake on the company

Table 2

20TH SUMMARY OF SHAREHOLDERS AS AT MARCH 2007-09-11

INSTITUTIONAL	SHAREHOLDERS	SHARES	%HOLDING
Kenyan	502	31979326	31.98
Foreign	4	60387301	60.39
East African	3	14714	0.01
INDIVIDUAL			
Kenyan	4455	7323870	7.32
Foreign	56	251275	0.25
East African	19	43514	0.05
Total	5039	100,000,000	100

Source: British American Tobacco Annual review and financial statements 2006

Mastermind Tobacco Kenya Ltd on the other hand is an international private company which is locally owned by a Kenyan Entrepreneur and has its head offices based in Nairobi. The company started its operations in 1990 in Kenya and has over the years expanded its operations both regionally and overseas. As part of its expansion strategies, the company has opened up market export zones in Eastern, central and Southern regions of Africa to meet regional demands. The company has presence in Cairo, Paris and New York where they do not sell cigarette brand but rather they export processed leaf used to manufacture other brands.

4.2.2 Nature of business

The researcher sought to establish the actual nature of business the tobacco companies are engaged in. The respondents were asked to explain the nature of their business in terms of those activities they consider core to their businesses. The information obtained from the respondents showed that the two major players BAT and Mastermind Tobacco Kenya were involved in almost similar activities which included tobacco leaf production and processing, Cigarette manufacture and the distribution of tobacco products in the form of cigarettes, cigars and processed leaf.The two companies are involved inn leaf growing in various parts of the country. According to respondents in BAT, the company supports about 10000 small scale farmers in Embu, Malakisi, Meru, Migori and Suba Kuria who grow tobacco on a contractual basis.

The company provides seeds, fertilizes, spray pumps and protective clothing to farmers to facilitate tobacco growing. Loans are recovered when the company purchases tobacco leaf from the contracted farmers. The tobacco leaf is processed at the Green Leaf Threshing Plant in Thika then sent to Nairobi factory for the manufacture of cigarettes while the rest is exported to other countries.

Mastermind also gave the same areas for growing Tobacco as BAT, as they also engages farmers in contractual farming. Its leaf processing is however done within its factory in Mombasa Road, Nairobi. Same strategies including provision of farm inputs, agronomist staff, and unsecured interest free loans for farmers have been used by the company. However accusations of farmers contracted by one company being poached and selling their tobacco leaf to the competitor company were deduced from respondents in both sides. In a nutshell therefore, tobacco companies in can be said to be involved in the business of tobacco production and processing, cigarette manufacturing and eventual distribution of tobacco products.

4.3 RESPONSE STRATEGIES OF TOBACCO MANUFACTURING COMPANIES IN KENYA TO GLOBAL COMPETITION.

4.3.1 Introduction

The cigarette industry is extremely large and profitable and has a truly global scope. Globalization has opened up borders and therefore fuelled competition on a global scale. In Kenya liberalization of the economy has done away with government protection for local industries and therefore exposed all players to global competition. Many multinational firms have abandoned their nationality to run and control a vast array of foreign subsidiaries changing their outlook to be global, there are numerous examples of versatile multinationals that are rapidly redefining their portfolios and branding to fit into the changed times as the world shrinks and customer needs and preferences assume a uniform look.

The total global cigarette volume is essentially flat with volume performance varying substantially between markets. The world has an estimated one billion smokers with world cigarette volume stabilizing at 5.5 trillion sticks.

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The Kenya cigarette market exhibit pretty the same scenario of a mature industry with statistics showing that about 26% of population (about 8.5 million) Kenyans were regular smokers 2% of them being women.(Daily Nation Thursday July 12, 2007 pg 68).The total Kenyan market is estimated at 6.5 billion sticks annually. Players in the Kenyan tobacco industry have therefore been forced by the changing business environment to formulate and implement response strategies in order to counter global competition as more players are being attracted into the Kenyan market by such attractive business conditions. Some of the major global players making inroads into the markets in the third world include Phillip Morris (PM), Japan tobacco (JT) B.A.T and imperial tobacco.

4.3.2 Brand Rationalization.

Marketing came out as one of the key drivers of the tobacco companies response strategies to global competition. British American tobacco the market leader in the industry has come up with a broader and more inclusive brand portfolio aligned to its philosophy of "one size doesn't fit all". The company has done market segmentation based on brand values which explain brand choice in the tobacco category The Company has four main segments, which it uses to determine its investment strategies and priorities. These are; Drive brands which are long term and strategically critical to the companies growth and defence of the companies market share. They are priority new launches for future growth for the company. The study established that B.A.T Kenya has indeed launched two drive brands in the last two years. Dunhill was launched at the end of 2005 within the global super premium segment, to drive growth within the premium cigarette segment. On the other hand PALLMALL which is a leading global mid price band in B.A.T group was launched on February 2006. Within the sub premium value for money (VFM) positioning. Globally the B.A.T group has four drive brands namely, lucky strike, Kent, Dunhill and Pall Mall. The introduction of two of these global brands into the Kenyan market is a deliberate strategy to enable the Kenyan company to edge off global competition. These brands are believed to be the driving force for long term global market leadership and growth. The second segment represents the "second tier" brands referred to as managed brands. It was established that those are tactical brands that are important contributors to the business now but may become less important with time. The company therefore uses these as distribution brands to defend its market share, and due to high loyalty levels within the market, they basically provide entry barriers to new players.

The third classification according to B.A.T is the mature brands which have started declining and therefore the company does not find them worth of any investment or reviving but rather milks and kills them using the proceeds to invest in the future brands.

Table 3

B.A.T Portfolio Investment Strategy

GROW /INVEST AGRESSIVELY ***DRIVE BRANDS***		GROW/INVEST SELECTIVELY ***MANAGED BRANDS***
KILL **DECLINING BRANDS**	MILK ***MATUREBRANDS***	HARVEST ***MATURE BRANDS***

→ =Flow of the revenue to invest within the portfolio.

Source: British American Tobacco

Strategically therefore B.A.T is focussing on the growing, more profitable segments of the tobacco markets and these are international brands, lights, premium and adult smokers under 30 years (ASU 30).

Mastermind tobacco on the other hand has had to review its strategy in order to compete in the global market, this is because initially most of its brands were local and regional and targeted at the lower end of the market whereas the global market was being driven by premium brands. In July 2006 Mastermind tobacco ltd launched “summit lights” a premium brand intended to fill the gap in the higher end of the market and deliver a premium product to a growing class of discerning consumers, with discretionary income and spending habits .This has enabled the company to claim a stake at the global market as well as countering global competition which is concentrated at the high end of the market. The brands introduction was a deliberate strategy by the company to defend and grow its market share by checking international company’s penetration into the market especially at the top end of the market.

4.3.3 Distribution

The study found out that the Kenyan tobacco companies had established an elaborate distribution network as a strategy of raising barriers for entrants into the Kenyan market. All respondents concurred that the aim of this strategy was to efficiently and effectively avail the company's products to the customers. In British American tobacco, the distribution supply chain employs over 40 distributors within the country, 1000 direct bicycles and van salesmen and 40,000 retailers. The company has also provided over 1000 kiosks to small scale traders in Kenya's urban areas. This is in addition to providing essential tools for marketing such as step displays, dispensers, ashtrays, trolleys, sign boards, parasols and merchandising materials. Such intensive distribution makes the companies products accessible from any corner of the country and thus gives an edge to the company by way of being able to reach more consumers

Mastermind tobacco has equally employed the strategy of extensive distribution through dealers ,stockists, bicycle salesmen and kiosks, to gain a competitive edge over global competitors who do not have such distribution networks in the local market .It was established that, key to the companies defence of market share was the close relationship with the trade. Working in partnership with distributors and strategic retail accounts to improve both product availability and quality at the point of sale. There was deliberate investment in training and development of distribution partners and their field forces to improve their capabilities and maximise sales. A notable strategy in the industry for motivating distribution partners and keeping them on the company's side was bonus schemes for distributors and key stockists, giving them stretch targets for optimal distribution. It was also established that both companies had made significant investment in creating new points of sale through deployment of kiosks and hawker trolleys selling exclusively the company's products as well as enhancing improved availability and visibility.

4.3.4 Restructuring

It was established that over the last couple of years, British American Tobacco has restructured its operations, to make it more efficient and effective in the global market and also as part of concentrating on its core business of production and distribution of tobacco and tobacco products.

Recent milestones in the companies' history reflecting these strategic moves include in 1989 when BAT Kenya changed its strategy to refocus on tobacco and financial services disposing off everything else. In 1997 the financial services business was also de merged and in 1999, BAT merged with Rothmans thus consolidating its market share and competitiveness. The company has also restructured its manufacturing operations in the region, leading to the closure of BAT factories in Uganda Rwanda and Zambia. This led to the contract manufacture of cigarettes at the Nairobi Factory for export to the regional markets. The Nairobi factory has been established as a regional manufacturing hub, and his has enabled the company to maintain a very cost competitive model, compared to other sources in Africa. There is less complexity in contract manufacturing as the company is not involved in marketing the brand, negotiating trade margins and in managing marginal supporting costs versus staff as it does for domestic market. B.A.T Kenya's contract manufacture in 2006 grew by 144% above 2005 as the Nairobi factory moved towards realizing its full capacity. It has greatly improved revenues, reduced costs and created a competitive advantage of the company. Growth in export volumes has boosted companies' competitive advantage and increased profits which are used to invest locally to grow market share and brands. Indeed BAT Kenya currently manufactures cigarettes for 14 markets.

Mastermind Tobacco as part of the expansion strategies has also opened up markets export zones in the eastern central and south regions of Africa to meet regional demands besides determining market niches and developing cigarette brands that are highly competitive. The company is also exporting processed tobacco to Johannesburg, Cairo, Paris and New York for manufacture of exclusive world brands. All these products are produced from Nairobi factory and exported thus boosting the company's revenues which are used to invest in the local market to boost market share and competitiveness.

4.3.5 Supply Chain

It was established that tobacco manufacturers use the supply side of the business to enhance their competitive advantage. This includes the suppliers of the most important raw material in the industry and that is Tobacco leaf. Both B.A.T and M.T.K have taken control of the tobacco growing in Kenya by contracting tobacco farmers in the country to be supplying tobacco to the respective companies exclusively., this makes it difficult for any outside player to access tobacco leaf as easily and such competitors may be forced to import tobacco leaf expensively making their costs of production high and placing them at a disadvantage as opposed to local players. B.A.T and M.T.K provide seeds and Fertilizers, spray pumps and loans to the farmers effectively "locking them in" in addition to providing extension services, this makes the raw materials (tobacco leaf) easily available for the local players and also cheaper and thus reduced costs of production, good pricing and margins giving the companies a competitive edge.

The study also established that due to increased export volumes, supply chain of the companies experienced greater complexity in terms of customers, brands and materials and distribution routes. In the case of BAT Kenya in 2007, for the first time ever, export and contract sales were greater than domestic sales at 60% and 40% respectively. In order not to compromise quality and services, B.A.T established a customer care centre to provide communication links and rapid response to both domestic and export customers as well as engaging in a continuous training and development programme for its people and this has enabled the company to effectively position itself in the global market place and stay at the competitive edge.

Respondents hailed the automation of Kenya Revenue Authority (KRA) clearing systems, saying that the system presented opportunities to reduce clearance, lead times and stock inventory holding and therefore the savings in cost can be reinvested back into the business to drive further growth. Outsourcing of non core business activities was also cited as a strategic move that has enabled these companies to cut costs and increase profitability. These include services such as catering, logistics and transport and payroll this has increased efficiency and effectiveness as efforts are concentrated on the core aspects of the cigarette business.

4.3.6 Technology

Technology came out as being a key driver in the companies strategies to compete effectively in the global scene. According to respondents at British American tobacco, The Nairobi factory is now state-of-the-art modern manufacturing machinery following the completion of a 1.2 billion investment. This has been necessitated by the closure of BAT factories in Uganda, Rwanda and Zambia hence increased production Demand. There has also been need to maintain product quality to world accepted standards and also manage product variety. During the years 2006 the company embarked on a major investment programme involving the acquisition of four additional production lines. Substantial investment in infrastructure was also made to support these lines and facilitate higher volumes of finished goods. Accelerated training programmes for the staff was also undertaken to enable them integrate within the new technology, further as a major departure from the previous years, The factory has embarked on a programme where certain lines run for 24hours a day seven days a week. This is intended to not only improve production output, but also to enhance asset utilization and hence contribute to cost containment on machinery investments. The study found out that owing to such investment in the state of the art technology, The Nairobi factory has been dubbed the centre of manufacturing excellence in the region. Enabling the company to deliver high quality products, at the right time and the right place at the right quality at optimal costs. Further a new IT system named SAP was successfully implemented in 2006 hence enabling factory rationalization and cost effectiveness. Cost effectiveness established through technological advancements was thus key to remaining competitive in the global market place. Cost advantages are re invested in building brands, pricing and provision of good margins to traders.

Mastermind tobacco has also been able to maintain and persistently produce quality products as per the company's quality policy and in line with consumer expectation through investments in modern technology. As part of quality improvement practice the company recently embarked on a process of acquiring the international standardization for organisations (ISO) certification. All the staff members have also been taken through sensitization training to be enlightened on ISO accreditation requirements. It was also established that the result of the company exporting processed tobacco overseas such as XR4 CX30 and L3L0, their processing plant has been technologically upgraded to meet specific customer requirements.

The leaf processing plant boasts as one of the most modern analytical laboratory in the tobacco world comprising of modern machinery and equipment for determination of sugar, nicotine, water and tar in the tobacco. This has been due to the need to re assure the customer of the safety and security of their products. It was established that the IT department has been supportive of the operations and today, a tobacco bail can be traced all the way from buying point to point of processing through use of computerized bar code scanners. According to the respondents, the greatest challenge today is to continually satisfy the ever increasing consumer base through timely acquisition and processing of quality products. The study therefore established that technology has been core to developing and maintaining a competitive advantage in a globalized and techno-savvy business world. Both companies have effectively utilized technology to not only produce world class quality products but also meet production requirements and also achieve cost effectiveness.

4.3.7 Collaboration with government

The study established that the tobacco companies in the country have adopted a strategy of collaborating with the government and its agencies on two very critical maters affecting their operations, profitability and competitiveness. Anti-tobacco legislation is one area in which tobacco companies have engaged the government into coming up with practical anti tobacco laws aimed at levelling the playing field in the industry. According to respondents, the passing of the tobacco control bill on August 9th 2007 represented the culmination of many years of lobbying by both companies and was hailed as a good development. The study established that anti-tobacco laws were a global phenomenon and therefore the country could not be an exception of such global patterns. The bill provided certainty in the industry in addition to levelling the playing field where all competition will be bound by the same regulation. Further the local operators hailed the creation of a tobacco control board as a positive step to regulating tobacco and also a barrier to entry into the market by new players who will have to be vetted and given a clean bill of health by the board.

Illicit trade was another area of collaboration of tobacco companies with the government. Illicit trade was noted as the main threat to the business today with duty not paid cigarettes finding their way into the domestic market at lower retail prices thus undermining not only legitimate trade but also denying government revenue.

The study established that illicit trade generally thrives where there is a disparity between the excise policies of adjoining countries making smuggling of high excise products like cigarettes very profitable. This creates as uneven playing ground as the illicit products come at lower price and thus denying the legitimate players market share and revenues, thus by collaborating with government the tobacco industries hope to stamp such illegal competition, increase their market shares and revenue standings. The tobacco players expressed their commitment to collaborate with law enforcement agencies in identifying potential loopholes and areas of improvement in combating illicit trade.

Taxation and pricing strategies were established to be a bone of contention between players in the industry. According to M.T.K, the change of mode of taxation from Advalorem (Levied as a proportion of the value of the product at a specific tax point e.g. ex factory, ex warehouse etc) to a specific taxation through a finance bill in 2003 (specified rates per mille fixed by retail selling price) was tantamount to fixing of cigarette prices by ministry of finance and contrary to competition policy. The respondents proposed a special rate to encourage local manufacturers to grow into international brands accusing multinationals of discarding local brands to promote foreign brands and therefore making it unfair to compete at the same tax level Tobacco taxation was cited as the biggest influence on profitability and brand portfolio strategies .B.A.T respondents on the other hand vouched for specific mode of taxation arguing that it significantly limits price ranges in the market, resulting into higher average prices and thus reduces price wars in the market and down trading. It is expected that price and price mix benefits will account for the majority of future profit growth.

4.3.8 Societal Responses

Society expects more from the tobacco companies by virtue of being in a controversial industry. The Study established that companies in the industry had adopted corporate social responsibility as a way of giving back to the society. They continue to support the society through various social and economic development programmes across the country.

In 2006 BAT invested in various community support programmes in line with the groups' corporate social responsibility guidelines. These were the companies' contribution to addressing social and economic needs in society to empower the people and sustain community development. These corporate social responsibility activities were outlined as famine relief where the company donated 15 million to provide relief assistance to affected Kenyans, support of east African Jua Kali exhibitions which provide a platform for participants to market their products, share ideas, innovations and new technology as well as sponsoring the agricultural society of Kenya including infrastructural maintenance of show grounds and pavilions. This enables the company to connect with the society which constitutes its consumers. The company also commenced its second cycle of social reporting process in 2006, which involves listening and responding to stakeholders concerns on the company's operations. This benefits the company by improving management decision making to being more sensitive to changing expectations in society. The company also signed the public place smoking charter in 2006 with Kenya association of hotel keepers and caterers (KAHC) to encourage hospitality industry to create smoking and non smoking zones. All these initiatives were part of the company's long term strategy to meet society expectation and be seen as a responsible tobacco company, mindful of its surrounding environment.

CHAPTER FIVE: CONCLUSIONS

5.1 Introduction

This chapter presents the summary, discussions and conclusions from the research findings. It will also highlight the limitations encountered while doing the research as well as giving suggestions for further research and recommendation for policy and practice.

5.2 Summary/Conclusions

The study looked at the response strategies of tobacco companies in Kenya to global competitor. This is because globalization has created a borderless world and opened up new markets to business firms keen on expanding their operations and venturing into new markets as a growth strategy. Indeed global competition has characterized and defined today's business environment and this made it imperative for modern day corporations to take cognisance of the strategic opportunities and threats posed to them in the global markets and come up with global competitive strategies that can enable the firm stay at the competitive edge.

The Kenyan business scene has not been spared by these global patterns. In fact, the economic and political stability of the country, the liberation of the economy as well as the fairly big market size has seen multinationals not only enter into the Kenyan market, but also use the country as a gateway to the regional market like east African community.

The objective of this study therefore was to determine the response strategies that have been adopted by companies in the tobacco industry to global competition. Further the study was also intended at establishing whether those response strategies actually differ between the tobacco companies in Kenya mainly mastermind tobacco Kenya (MTK) and British American Tobacco Kenya (BAT) which are the major local players in the Kenyan tobacco industry

The study established that global competition was indeed facing the Kenyan tobacco companies and that these companies had put in place strategies to counter such competition and ensure their growth and survival. Marketing came out at the foremost

front on which the companies were waging the competition war .This was evident from the Companies deliberate strategies of introducing new brands in the market which were seen as able to compete with international brands. BAT come out as having undertaken a brand rationalization process by dropping some local brands in favour of international brands dubbed the global drive brands, thought to offer the company long term growth prospects, These are Dunhill and Pall mall brands at the premium and value for money segments respectively.
Its arch rival MTK having concentrated its marketing efforts on local brands and the lower market segment also launched a premium brand namely SUMMIT, also positioned to enable the company lay a stake at the upper tier market segment being played by global competitors like Phillip Morris international and Japan Tobacco Company. In addition to introduction of new brands , the companies have also used intensive distribution networks in the country to defend their market share with massive investments in distribution tools, training of field staff and provision of tools of trade including branded kiosks and hawker trolleys all over the country

It was also established that both the companies had restructured their operations and expanded both regionally and internationally in an effort to grow volumes and increase profitability. The firms have transformed themselves into export companies by venturing into new international markets and thereby competing on a global scale. This has brought not only exposure of their brands to international market but also extra profits which are then deployed back to locally grow and defend market share from other global competitors. The transformation of BAT Kenya from an export volume of 18% in 2002 to 60% in 2006 was a clear indication of this fact.
In order to produce world class products able to compete effectively in the world market, the local companies have over the last few years invested heavily in their manufacturing plants both in Nairobi. BAT Nairobi plant has been dubbed the centre of manufacturing excellence, boasting of state of the art machinery with a capacity of 10 billion sticks annually thus enabling it to supply 14 markets with its products in form of exports and contract manufacturing. Technological investments were therefore established as being key in raising the standards the industry standards in terms of quality products and matching or even exceeding global competitors. Mastermind ability to supply processed tobacco to far flung countries such as Egypt is an indication that their processing facilities are world class, indeed the company is in the process of being ISO certified.

The study also established that supply chain was used as a strategy of giving an edge to the local companies. The contracting of farmers involved in tobacco growing in the country has also given them an edge over foreign competitors. These local companies are able to procure tobacco cheaply from the farmers thus lowering their production costs and hence cost advantages as opposed to foreign players who may not have access to the tobacco leaf.

The study established that meeting societal expectations was a key strategy by the tobacco companies to ensure their continuity and that they build their images. An involvement in social responsibility activities towards the society was a key feature of their operations. BAT Kenya went a step further to be the first Kenyan company to undertake social reporting process which added value to the way the company relates to its stake holders as it puts scrutiny to the conduct of the organisations and demonstrate responsibility to their stakeholders

It was also established that engagement with the government and its agencies in the issue of anti tobacco legislations, illicit trade and taxation was a common strategy in the industry. Through lobbying the companies have been able to influence to influence these issues affecting business and this has helped in levelling the playing field and ensuring fair competition.

In a nutshell the study established that, the Kenyan tobacco companies had taken such diverse response strategies towards tackling global competition. Most of these strategies were also found to be similar in Both BAT and MTK with slight variations. The study established that these variations have been as a result of BAT being a subsidiary of a multinational and hence most of its strategic moves have been activated by its corporate head, thus strategies like introduction of global drive brands which are trading elsewhere in the world by other companies, social reporting process and the merger (with Rothmans) are in line with the groups global strategy. On the other hand MTK being a purely locally owned firm doesn't have to adopt to strategies from elsewhere and this must up this responses been formulated in head office in Nairobi.

5.3 Limitations of the Study

The limitations encountered doing the study include the fact that the companies could not disclose all the details of their operations both locally and abroad for fear of competition getting hold of such information. The firms were also hesitant to discuss their response strategies in detail for fear of pre empting their moves. It was also difficult to get the respondents into discussing the nature of their internal environment and those together with the time limitations by the researcher were hurdles faced in the study

5.5 Recommendations for further research

Further research can be done on the response strategies of companies in other industries to global competition as well as the factors that inform multinational corporations into setting shop in foreign markets.

5.4 Recommendations for Policy and Practice

With the advent of consumerism and increased consumer vigilance, there is need for tobacco companies to be innovative and produce cigarettes that are less harmful to he consumers. In the developed world, cigarettes are being made "user friendly" by having activated charcoal filters that traps some of the coarse particles in the tobacco smoke making it smoother. This can enable the local tobacco players to pre-empt competition. This may go a long way in winning the consumer confidence and thus brand loyalty. Such an innovation will keep these companies ahead of change. In line with consumerism, the local companies also need to take into clearly communicating the quantities of the various elements constituting their product, for instance the exact quantities of tar, nicotine, carbon monoxide. This will enable the companies o clearly communicate the harmful nature of cigarettes to smokers as opposed to the general warning that "cigarette smoking is harmful to your health" which doesn't provide full information of the harmful contents. This will win consumer confidence and make the products acceptable in other developed markets and subsequently accord the firms a competitive advantage.

An opportunity also exists for the local players British American Tobacco Kenya and Mastermind Tobacco Kenya to enter into collaborative arrangements. This includes the possibility of the companies selling each others products in foreign markets where one may have presence and the other doesn't.

This will open more markets for their products and increase their competitiveness on the global scene. In the Kenyan market, the companies can enter into a merger that will create a near monopoly and therefore raise the entry barriers to any would be entrants in addition to ending the cut throat competition between the two especially at the lower end of the market and saving on costs.

The introduction of the global brands by B.A.T Kenya into the local market is a good global competitive strategy. The brands having been marketed in the developed world, there is n opportunity for the company to localise the brands and give them a more Kenyan look and thus more appealing to the locals. This will make their penetration into the Kenyan market more easier, increase consumer loyalty and hence the firms competitiveness. This is because there may exist a variation in tastes and preferences between the local consumer and the foreign ones, hence tailor made products.

Following the passing of the passing of the tobacco control bill, the tobacco companies may seize the opportunity and act proactively by way of investing in the provision of infrastructure for smokers in public places such as shopping malls, restaurants and streets. This will minimise the possible decline in cigarette volumes in the post regulation period as well as acting as a way of exhibiting corporate social responsibility and fulfilling social expectations in the transitional period.

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APPENDIX 1: INTERVIEW GUIDE

TOPIC: RESPONSE STRATEGIES OF TOBACCO COMPANIES IN KENYA TO GLOBAL COMPETITION

SECTION A: COMPANY PROFILE

1. When did the company start its operations in Kenya? ....

2. What are the company's mission and vision statements?
   Mission:..
   Vision:..

3. How is the shareholding structure for your organization (top 10 shareholders)

	A/c No.	Name	Shares	%
i)				
ii)				
iii)				
iv)				
v)				

4. How many employees does the company have?
   Local (   ) Expatriates (   ) Total (   )

5. What would you define as the core business of your company? tick as applicable
   i) Manufacture of cigarettes and tobacco products { }
   ii) Manufacture and distribution of cigarettes and tobacco products { }
   iii) Growing, processing and sale of tobacco leaf { }
   iv) Manufacture, distribution and marketing of cigarettes { }

6. How would you define Globalization? How has it affected the company's strategy having operations in many countries?
....
....
....
....

7. How many brands does the company have? What would you describe as the role of each of these brands in your portfolio?

	BRAND	ROLE
1		
2		
3		
4		
5		

8. What other challenges does the business face? ....
....

9. Strategically, how does the company wish to position itself?..
....

10. How does this fit into the vision and mission statements of the company?..
....
....

SECTION B: GLOBAL COMPETITION AND OTHER CHALLENGES

1. How would you define Global competition? How has it affected the company's strategy having operations in several countries?..
....
....
....

2. Who do you consider to be your main global competitors?..
....
....

3. What strategies have you put in place to defend and grow your market share vis a vis these competitors?..

4. What in your opinion is the major motivation for multinational corporations in investing in Kenya? ....

5. What are some of the challenges/opportunities that the company face as a result of having global operations/ operations in several countries?

	CHALLENGES	OPPORTUNITIES
I		
Ii		
Iii		
Iv		
V		

6. How does your brand portfolio enhance the company's global competitiveness?..
....

7. To what extent has globalization influenced consumer tastes and preferences? (tick as applicable)

   To a lesser extent { }

   To some extent { }

   To a large extent { }

   To no extent { }

8. What strategies has the company put in place to counter threats/seize opportunities arising from global competition?

THREAT/OPPORTUNITY	RESPONSE STRATEGIES

9. Has global competition affected the supply chain side of the business?

   YES { } NO { }

10. What role does the Kenyan business play in the companies global operations?

11. Owing to a borderless business world, to what extent do you consider the following to be a challenge to your business

	Large extent	Some extent	No extent
a) Threat of new entrants?	{ }	{ }	{ }
b) Threat of substitutes?	{ }	{ }	{ }
c) Intense rivalry?	{ }	{ }	{ }
d) Suppliers?	{ }	{ }	{ }
e) Buyers?	{ }	{ }	{ }

12. What is the future of tobacco industry like in the face of increased regulation and punitive taxation regimes? ....

....

....

13. What other macro economic challenges does the company face?

   a) Political/legal ....
   b) Environmental ....
   c) Social-economic ....
   d) Technological ....

14. What strategies has the company put in place to address each of the above challenges?

MACRO ECONOMIC FACTOR	STRATEGIC RESPONSE
Political/Legal	
Environmental	
Socio-economic	
Technological	

SECTION C: STAKEHOLDER INFORMATION.

1. Who would you say are the key stakeholders in the business? How would you rank them in order of importance?

    i) ……………………………………

    ii) ……………………………………

    iii) ……………………………………..

    iv) ……………………………………

    v) ……………………………………

2. How is the ownership of the firm (tick)

    a) Fully foreign owned? { }

    b) Fully locally owned? { }

    c) Partly foreign and locally owned? { }

    d) Government owned? { }

3. What challenges are posed by each stakeholder and what strategies are in place to address them?

Stakeholder	Challenges	Response

Thank You.

APPENDIX 2: LETTER OF INTRODUCTION.

GEOFFREY M. KAVEKE,
P.O BOX 78,
MERU.
27 AUGUST 2007.

To Whom It May Concern:

Dear Sir/Madam,

RE: MANAGEMENT RESEARCH PROJECT.

I am currently pursuing a master of Business administration (M.B.A) degree at the University of Nairobi. As part of the programme, I am expected to carry out research on a given topic. My topic is "RESPONSE STRATEGIES OF TOBACCO COMPANIES IN KENYA TO GLOBAL COMPETITION."

Your firm being one of the leading tobacco companies and the subject of this case study, I would like to collect data from some of your managers so as to enable me meet the objectives of the study. Data that will be gathered will be treated with utmost confidence, and upon completion of the research, a copy of the findings will be availed to you on request.

I look forward to your assistance.

Thanking you.

Geoffrey M. Kaveke.