

Responses of Transafrica Motors to environmental challenges in  
the Motor Vehicle Industry In Kenya

BY:

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A Management Research Project Submitted in Partial Fulfilment of the  
Requirements for the degree of Master of Business Administration (MBA),

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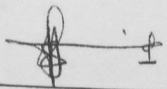
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## DECLARATION

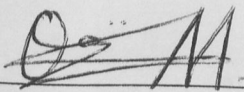
This project is my original work and has never been submitted for a degree in any other University.

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Saada Hamid Mohamed

Date: 17<sup>th</sup> / OCT / 2007

## DEDICATION

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

Signed:   
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Date: 19<sup>th</sup> / 10 / 2007

## ACKNOWLEDGEMENTS

First and foremost I would like to register my profound gratitude to Allah (S.W.T) The Most Gracious and Most Merciful for giving me the strength.

This project has been made possible with the encouragement, support and contribution of a number of people. I feel grateful and I express my profound gratitude to Dr. Martin Ogutu my supervisor who has been very supportive and committed, Dr. John Yabu, Prof. Evans Aosa, and Mr. Jackson Mwalu who made valuable contributions towards this project.

I would also like to express my profound gratitude to my dear husband Amir Awadh Swalch who has been my pillar of support without whom this project would not have been what it is.

### DEDICATION

I would also like to extend my thanks to my parents, Hamid Mohamed Masoud and Khadija Abubakar Awy for their support towards my education and being there for me always whenever I need it.

*To my parents, sisters, brothers and  
my husband with all my love*

I would also like to express my gratitude to the Management of TransAfrica Motors Ltd for giving me their support in making this project a success.

Last but not in no means least I would like to express my thanks to all my lecturers, administrators of University of Nairobi, Bandari and our esteemed Librarians and all who contributed towards making attainments of this education easier than it really was.

Thank you all! You are the best and God Bless you all!

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## ABSTRACT

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The study was based on primary data collected using questionnaires which were self administered using personal interviews. The data obtained from the Organization was analysed and interpreted using content analysis. The findings of this study revealed that there are a number of responses that are used by TransAfrica Motors Ltd to overcome the challenges. Some of the strategies used include cost leadership, product differentiation, segmentation, penetration and development of new markets.

A few observations have been made from the findings one of which is that companies need to anticipate the change and act accordingly while the second observation is that TransAfrica Motors has to invest heavily in their marketing and operations department as well as implement the strategic plan so as to run a successful business.

## ABSTRACT

### ABBREVIATIONS

CBS - Central Bank of Kenya

This study sought to establish the responses by Transafrica Motors Ltd to challenges in the motor vehicles industry. The objectives of the study were to establish the Responses Transafrica Motors has adopted to cope with the challenges in the motor vehicle industry and to establish factors influencing their response to the challenges.

SUV - Sports Utility Vehicles

TAM - Transafrica Motors Ltd

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## CHAPTER I

### ABBREVIATIONS

CBK – Central Bank of Kenya

CBU – Complete Business Unit

COMESA – Common Markets of Eastern and Southern Africa

FAW – First Automobile Works of China

KMI – Kenya Motor Industry Association

SUV – Sports Utility Vehicles

TAM – Transafrica Motors Ltd

### INTRODUCTION

#### External Environment

Businesses do not exist in a vacuum; they exist in an external environment. This environment is highly dynamic and continuously presents opportunities and challenges. To ensure survival and success, firms need to develop capabilities to manage threats and exploit emerging opportunities promptly. This requires formulation of strategies that constantly match capabilities to environmental success; therefore calls for proactive approach to business (Pearce and Robinson, 1997).

Changes in environmental conditions shape a firm's opportunities, challenges and threats. Firms often respond to such environmental changes through strategic responses. Strategic responses can be defined as a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives (Pearce and Robinson, 1997). They therefore, involve changes in a firm's strategic behaviour to ensure success in the transforming of future environment (Ansoff, 1990). They are often due to changes in the competitive position a firm occupies in the competitive industry (Porter, 1980).

One of the challenges presented by a dynamic external environment is competition. Competition is indeed a very complex phenomenon that is manifested not only in other industry players, but also in form of customers, suppliers, potential entrants and substitute products. It is therefore necessary for any firm to understand the underlying sources of

# CHAPTER 1

## INTRODUCTION

### 1.1 Background

#### 1.1.1 Organization Responses And The External Environment

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competitive pressure in its industry in order to formulate appropriate strategies to respond to competitive forces (Porter, 1979).

The Kenyan business environment has been undergoing drastic changes, more so since 1990's. These changes include privatisation and commercialization of the public sector, increased competition, and liberalization of the economy and accelerated implementation of reforms by the government as well as rapid technological advancement. Faced with this changing environment organizations have to adapt their activities and internal configurations to reflect the new external realities. Failure to do this may jeopardize future success of these organizations (Aosa, 1998).

Responses by Organizations can be either strategic or operational. Strategic responses differ from operational response in many ways. While operational responses are short term and more concerned with efficiency of operations, strategic responses involve large amounts of resources and decisions relating to them are usually made at corporate and business level.

### **1.1.2 Overview Of The Motor Vehicle Industry**

Organizations whether for profit or non profit, private or public have found it necessary in recent years to engage in Strategic Management in order to achieve their corporate goals. The environments they operate in have become not only increasingly uncertain but also more inter connected. This requires a three fold response from these organizations. They are required to think strategically as never before, translate their insights into effective strategies to cope with their changed circumstances and develop rationales necessary to lay the groundwork for adopting and implementing strategies in this ever changing environment (Bryson, 1995). According to Pearce and Robinson (1997), in order to achieve their goals and objectives, it is necessary for them to adjust to their environment.

The formal vehicle business in Kenya has in recent past been hit by falling sales. Many companies have been forced out of business among them Lonrho Motors East Africa Ltd – once the regions biggest motor dealers but was driven into receivership by huge debts, a situation worsened by declining sales another was Hyundai Motors. Other have been forced to scale down their operations to skeleton structures, choosing to retain only appointed distribution while others have relocated to other East African countries in search of better operating environment. To a large extent, the situation has been blamed on increased and uncontrolled importation of second hand cars into the market as a result of market liberalization. The informal trade dealers on the other hand accuse the formal trade for over pricing themselves out of the reach of most Kenyans, inability to produce efficiently and lack of innovation. The industry has also been accused of unfair and unethical trade practices (Mucuvi, 2002)

According to Price Water House Coopers the motor vehicle industry is basically involved in the retail and distribution of motor vehicles. There are a number of motor vehicle dealers operating in the country some of who are General Motors, Simba Colt and DT Dobie.

According to the economic survey 2007 the number of newly registered vehicles has increased by 15.7 per cent from 45,653 in 2005 to 52,817 recorded in 2006. Significant increases of 24.3 per cent and 26.3 percent were noted in station wagons and trailers, respectively, reflecting growth in the sale of motor vehicles. The increase in newly registered vehicles is also attributed to the reduction of duty on unassembled kits. The expansion in the registration of new motor vehicles is consistent with the prevailing credit accessibility to the private sector.

**Table 1: New Registration of Road Motor Vehicles, 2002-2006**

Type of Vehicle	2002	2003	2004	2005	2006
Saloon Cars	10,534	9,709	12,628	14,216	14,829
Station Wagons	6,746	8,032	8,863	10,158	12,631
Panel Vans, Pick - ups etc	5,834	6,819	7,042	6,308	6,721
Lorries/Trucks	1,919	2,069	2,461	3,113	3,610
Buses and Coaches	407	667	872	885	856
Mini Buses/Matatu	3,996	2,854	4,405	4,076	3,714
Trailers	503	861	1,112	1,351	1,706
Wheeled Tractors	678	663	829	856	920
Motor and Auto Cycles	1,907	2,084	4,136	3,759	6,250
Three Wheelers	3	10	134	735	1,075
Other Vehicles	111	149	152	195	505
Total Units Registered	32,527	33,,768	42,482	45,653	52,817

Source: Economic Survey 2007

Most companies that operate in Kenya are franchise holders. The realities of changing environment demands that these franchise holders should operate efficiently and effectively in order to survive. The demands of liberalization and increased competition have meant that the franchises should make deliberate effort to put in place strategic measures that would give them an edge over competition. The managers of these Organizations are now required to possess the capability to restructure and adapt the enterprise to challenging constraints and to regard organizational structure as a key component to overall success of the organization (Mucuvi,2002)

Data from the Central Bank of Kenya (CBK) and the Kenya Motor Industry Association (KMI) indicate that there has been a significant increase in the sale of new light trucks in

2007 that are usually converted into matatus (14 seater vehicle), or used to transport agro-produce and consumer products. According to the CBK, the first four months of 2007, sales of new 14-seater type of vehicles dropped by 25 percent compared to a similar period last year 2006 and that the sales of light trucks increased by 16 percent over a similar period last year. KMI's 2006 data indicate that while the industry sold 390 trucks that carry less than 20 people, sales of motor vehicles that carry more than 20 people increased to 663 (Business daily Africa, 2007).

According to the Business Daily Africa (2007) the most popular model among this category was Isuzu, which is a very popular model for transporting people. It was followed by Mitsubishi Canter and Nissan Diesel in that order. Bill Lay, the Managing Director of General Motors East Africa feels that sales of light trucks are growing at average rate of 35 percent per annum. Regional sales have however been affected by a reduction of East Africa common external tariff from 25 to 20 percent, which has meant increased competition from imported light trucks.

### **1.1.3 Transafrica Motors Ltd**

FAW has ventured into the growing regional market through a Kenyan firm, Transafrica Motors (TAM). Transafrica Motors Limited is a registered Kenyan company with sole exclusive dealership of Chinese manufactured motor vehicles from the First Automobile Works of China (FAW). They have taken upon the task of distributorship to one of the most affordable brands of commercial and private motor vehicles in the world today which can also withstand the tough conditions of our rough road terrain in the African continent.

Currently Transafrica Motors Ltd has staff strength of 133 personnel in their Mombasa offices and workshop and 70 in their Nairobi offices and workshop. In its progressive expansion Transafrica Motors Ltd is planning to roll out its network to cover Nakuru, Kisumu and Eldoret. Transafrica Motors also has spare-parts back up services that

manage to cover the entire range of the existing models for total customer satisfaction. First Automobile Works (FAW) manufactures vehicles especially for the African continent with extra endurance qualities in engine, chassis and suspension workmanship.

FAW has various dealership agencies within the COMESA trade zone and beyond. The FAW office in the Republic of South Africa is currently the regional headquarters in this continent to serve countries like Kenya, Tanzania, Uganda, Egypt, Ethiopia and South Africa. However, Transafrica Motors Limited is an exclusive dealer of FAW products in Kenya (Annual report, 2006).

The current global business trend commands most consumers to move towards the Chinese market, which is highly accredited for its affordable products. The Kenyan market has not been left behind in this global trend. Faw Group Corporation, formerly First Automobile works, is China's oldest and largest automotive manufacturer. The company can trace its roots back to July 15, 1953 when the cornerstone of its first assembly plant was laid. Over a span of five decades, FAW Group has evolved into one of the world's largest vehicle producers (Annual report, 2006).

The company's line up of passenger cars, ranging from affordable compacts to luxury performance sedans, also includes SUV's and versatile mini vehicles. Renowned in the commercial market for its outstanding light, medium and heavy trucks, FAW Group is also a leader in the bus, coach, and bus chassis industry. The company has delivered 9.2 million vehicles since its inception and ranks within the Fortune Global 500 (Annual report, 2006).

Since entering the International market in 1984, FAW Group has exported over 7,000 complete vehicles (CBUs) and vehicle kits to over 70 countries around the world. Supporting the company's rapidly expanding international sales network, FAW Group has established modern overseas production facilities in Pakistan, South Africa, Tanzania, Ukraine, and Vietnam (Annual report, 2006).

FAW Group ranked 470 among the top 500 corporations worldwide and first among China's top 500 manufacturers in 2006. FAW Group's corporate brand was valued at 42.5 Billion Yuan (US\$5.5 Billion). Sales revenues reached 148.6 billion Yuan (US\$ 19.3 billion) in 2006 (Annual report, 2006).

Initially FAW embarked on only producing commercial vehicles for the consumption of specifically the Chinese market and this became the driving force which the FAW expertise grew from strength to strength over a span period of over 55 years to become a determinant force in the Chinese motor industry. Currently with its years of existence the FAW corporation has ventured into producing all kinds of commercial and private motor vehicles to match up with the contemporary market demands of which this has been a beacon in its rapid growth over this period of time throughout Asia, Europe and the African Continents (Annual report, 2006).

The corporation has independently developed 18 brand products ranging from saloon cars, pick – ups, tippers, vans, luxury buses and heavy commercial trucks among this lot. Apart from its presence in 71 countries world wide FAW Corporation has a very strong and promising presence in Africa highly beacons in countries like Egypt, South Africa, Uganda, and Tanzania amongst other COMESA affiliate countries. Promising results in adapting the use of affordable FAW manufactured motor vehicles can clearly be attested in these countries. Looking at the above beneficial factors Kenya can not be left behind (Annual report, 2006).

The current global business trend commands most consumers to move towards the Chinese market, which is highly accredited for its affordable products. The Kenyan market has not been left behind in this global trend. According to the Kenya Transport Association Journal (2006), the region is going to be dominated by Chinese vehicles in the near future.



## 1.2 Statement Of The Problem

### 1.2.1 Objectives of the Study

Firms in dynamic industries respond to competitive forces in different ways. Responses can be strategic or operational by nature. In order to achieve competitive advantage, strategic decisions need to focus on unique activities. Strategic responses may involve changes in products and markets, collaboration, diversification and even divestiture (Porter, 1996).

### 1.2.2 Importance of the Study

Today Organizations in Kenya operate under a lot of competition and an ever changing environment. In order to survive and deliver goods and services effectively, they require engaging in effective strategic management process. According to Kiruthi (2000). "all organizations must grapple with the challenges of the changing environment in which they operate". Various organizations develop and or formulate their strategies differently. Whatever the process each organization ends up with what is called a strategy.

The research can also assist the scholars expand the already existing literature on Transafrica Motors Ltd is facing challenges of an ever changing environment examples of which are reduction of East African Common Tariff which has caused an influx of imported vehicles and hence an increase in competition. The current global business trend commands most consumers to move towards the Chinese market, which is highly accredited for its affordable products. The Kenyan market has not been left behind in this global trend. According to the Kenya Transport Association Journal (2006), the region is going to be dominated by Chinese vehicles in the near future.

The research can also be useful to the stakeholders especially shareholders and other  
The Research question therefore was: What are the responses taken by Transafrica to challenges of a changing environment in the motor vehicle Industry in Kenya and what factors influenced the responses?

### 1.3 Objectives of the Study

- i. To establish the Responses Transafrica Motors has adopted to cope with the challenges in the motor vehicle industry.
- ii. To establish factors influencing their response to the challenges.

### 1.4 Importance of the Study

The research can assist the Management of Transafrica Motors in ensuring that they run a successful business and ensure that they are abreast with all the new competitive developments in the market so as to be able to plan in for any current and future changes.

The research can also assist the scholars expand the already existing literature on responses whether strategic or operational as well as contribute immensely to the current available literature on the same thus be able to bridge the gap of knowledge.

The research can also assist managers in other organizations by providing them with information that will assist them in designing appropriate responses and where none exist to be able to establish them.

The research can also be useful to the stakeholders specifically shareholders and other interested parties, which may lead them to make more informed decisions on the management of a company.

## CHAPTER 2

### LITERATURE REVIEW

#### 2.1 The Concept of Strategy

Strategy is a multi-dimensional concept and various authors have defined strategy in different ways. Chandler (1962), in strategy and structure, calls strategy “.....the determination of the basic long term goals and objectives of an enterprise and the adoption of courses of action and allocation of resources necessary for carrying out these goals”. Strategy is the match between an Organization’s resources and skills and the environmental opportunities and risks it faces and the purpose it wishes to accomplish (Hofer, 1978). It is meant to provide guidance and direction for activities of the Organizations, since strategic decisions influence the way Organizations respond to their environment, the purpose of strategy is to provide directional cues to the Organizations that permit it to achieve its objectives while responding to the opportunity and threats in the environment (Hofer and Schendel, 1978).

According to Ansoff (1965), the concept of strategy is the firm’s business and the common thread which is arrived at through the use of product market scope. Andrews (1971), define strategy in terms of corporate strategy as the pattern of major objectives, purposes, or goals and essential policies and plans for achieving those goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be. Mitzberg (1994) defines strategy as a pattern in a stream of decisions and actions. He defines strategy as a plan, ploy, pattern, position and perspective.

Webb (1989), defines strategy as the process of deciding a future course for a business and so organizing and steering that business as to attempt to bring about the future

course. It is 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 and to fulfil stakeholders' expectations (Johnson and Scholes, 2002).

By the concept of strategy, we mean its content and substance. Hax and Majluf (1996) have presented strategy as a multi dimensional concept that embraces all the critical activities of the firm, providing it with a sense of unity, direction, and purposes as well as formulating the necessary changes induced by its environment. They provide a unified definition of the concept of strategy as: a means of establishing the organizational purpose in terms of its long term objectives, action programs and resource allocation; a definition of the competitive domain of the firm; a response to external opportunities and threats, and internal strengths and weaknesses in order to achieve a sustainable competitive advantage.

Strategic issues need to be understood in terms of the particular context of an organization. Different organizations are likely to emphasize different aspects of the strategic management process. They will therefore be faced with different challenges. For some it is competitive strategy, for others it is understanding the competencies, still others creating a fit as well as innovation (Johnson and Scholes, 1999 pg 37).

## 2.2 Strategic Responses

According to Grant (2000), survival and success for an organization occurs when an 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 static but turbulent, discontinuous and uncertain. Strategic response requires organizations to change their strategy to match the environment and also to transform or re-design their internal capability to match this strategy. This in turn means that organizations need to harness both its tangible and intangible assets to maintain a strategic fit in to its environment and strategy. If an organization's strategy is not matched to its environment,

then a strategy gap arises. It is thus important that organizations are able to shift their strategy with changes in the environment and their capability to the selected strategy in order to survive, succeed and to remain relevant (Porter,1985).

An example of strategic response taken by firms in Kenya is in the banking industry where they have been affected by changes in legislation such as the minimum capital base requirements being raised to 250 million in the late 90's to conform to the Basle Capital Accord. Small banks in Kenya responded by merging together in order to consolidate their capital bases. This was the case between Bullion bank and Commerce bank in 1998 and also National Industrial credit and African Mercantile Bank (Am Bank). This response by the banks to government legislation was their strategic response in order to ensure continued operations in keeping with changes in legislation (Mwanthi, 2003).

Other common strategic responses include diversification like the case of Nation Media Group from Newspapers to radio, television and expansion of their newspaper division to other East African countries such as Uganda. Kombo (1997) also noted that firms in the Motor Vehicle Industry made adjustments by introducing new technologies in product development, differentiation, segmentation and by targeting their customers with improved customer services. All these studies emphasize on the importance of strategic response of firms to changing environmental demands.

### **2.3 Operational Responses**

Operational responses are concerned with how the component parts of the organization deliver effectively the corporate and business level strategies in terms of resources, processes and people. Operations management is an important element of corporate strategy as successful implementation of such strategies can be very high for example Toyota Motor Corporation became one of the top three global car companies between 1950 and 1990 by focusing on the twin strategies relating to operations and marketing.

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It introduced a series of operations initiatives that assisted car and truck production essentially a repetitive, massive manufacturing process. Major investment in physical and human resource is necessary to achieve results and fundamental changes in people and machines need to be addressed by every company (Lynch, 2000).

In terms of human resources training programs that make employees think like customers are important in achieving customer responsiveness (Hill, 2001). New technology on the other hand can shape future strategy. Discontinuity that is major changes in technology and markets can have a substantial impact on strategy (Lynch, 2000). Marketing on the other hand is an important operational response and in order to achieve superior customer responsiveness, the marketing department must know the customer as well as communicate customer feedback to appropriate functions (Hill, 2001).

Operational strategy therefore has two major contributions to make to corporate strategy. Firstly, it aims to provide manufacturing and related processes that will give the organizations competitive advantage and secondly, it supplies co-ordinated support for products so that they will win sales orders in a competitive market place. Operational response is important as it can lead to competitive advantage in areas such as variable production to make products that are tailor made, lower costs, high product quality and enhanced service delivery (Lynch, 2000).

In summary, organization responses to the environment often involve change. For change to be successful it has to link the strategic, operational aspects of the organizations. This therefore emphasises the importance of translating strategic change into detailed resource plans, critical success factors and key tasks but also the way the organization is managed through control processes and every day communication (Johnson, 2002).

## 2.4 Environmental Challenges To Organizations

The external environment plays a significant role in the growth and profitability of firms (Kotha, 1995). Environmental conditions currently affecting firms are different from those of past decades (Hitt, 1997). Many companies now compete in global rather than domestic markets. Technological changes and the explosion in information gathering and processing capabilities demand more timely and effective competitive actions and responses (Hamel, 1989).

Chandler (1962), Andrew (1971) and Porter (1991) observed that organizations are environment dependent and changes in the external environment shape the opportunities and challenges facing the firm. An understanding of the environment enables a firm to define its objectives and to develop new strategies that are best suited to cope with change. Organizations look to the external environment for resource inputs that upon transformation into outputs are once again absorbed back by the environment.

Pearce and Robinson (1997) argue that there are host of external factors that influence a firm's choice of direction and action and ultimately its organizational structure and internal processes. These factors constitute the external environment and are divided into three interrelated subcategories that is the remote environment, the industry environment and the operating environment. The remote environment consist of factors that originate beyond and usually irrespective of any firms operating situation and include economic, social, political, technological and ecological factors.

Changes in the environment create pressure for change in the affected organizations. These organizations must adapt their internal operations to reflect the new external realities (Ansoff, 1965). Porter (1985) argues that firms that do not adapt to keep pace with the changing environment are likely to suffer and become irrelevant. The external environment of organizations has been described as turbulent over time changing constantly and in a discontinuous way.



Management must be aware of the environmental forces and changes and must manage the organization's resources to take advantage of opportunities and counter threats. Thomson (1997) states that, if an organization is to control its continued survival, it must seek to control the forces, which provide the opportunities for growth and change and those that pose threats and demand responses.

Porter (1980) points out that the essence of formulating the competitive strategy is about relating the company to its environment. He further observed that the industry characteristics strongly influence the alignment options available to the firm. Andrews (1971) on the other hand information and resource reservoirs is the starting point in strategy formulation.

The concept of industry environment has been brought to the foreground of strategic thought and business planning by Michael E. Porter. The nature and degree of competition hinges on five forces (Porter, 1980). These are the threat of new entrants, the bargaining power of customer, the bargaining power of suppliers, the threat of substitute products or services and the degree of rivalry in the industry.

## **2.5 Organizational Responses to Environmental Challenges**

Strategic diagnosis identifies whether a firm needs to change its strategic behaviour to assure success in its future environment. If the need is confirmed the next thing would be to select and execute specific actions, which will bring the firm's aggressiveness and responsiveness in line with the future environment (Ansoff, 1990).

There has to be an appropriate transformation of firms' capability to match the changed environment (Ansoff, 1990). The changes may involve human resources, management, finance, operational systems and policies that guide the firms' strategic thrusts. The firms must strive for a good fit between the skills people have and the every day jobs they do (Trahant, 1997).

Information obtained from strategic diagnosis is used to select a strategic response which will assure the firm's future success. In discontinuous environments, two types of responses are found (Ansoff, 1990). The first is referred to as the positioning response which uses strategic planning to select the portfolio of business areas in which the firm will participate, and to develop the competitive strategies it will pursue in each area. The second type is the real time response, which uses a technique called strategic issue management to identify potential unforeseen strategic threats and opportunities, to estimate the impact on the firm and to develop and execute time responses.

As far as strategic responses are concerned, organizations need to develop corporate strategies that are best suited to their strengths and weaknesses in relation to the environment in which they operate (Lynch, 2000). This corporate strategic response may involve changes in the organization's products, changes in markets, changes in the organization's structure, strategic alliances or mergers with other organizations, various diversification strategies, retrenchment, diversification or liquidation and many others.

## 2.7 Previous Related Studies

It is important to note that other studies have been done in this area. Kombo (1997), studied "strategic responses by firms facing changed environmental conditions—a study of motor vehicle franchise holders in Kenya" and he concluded that firms in the motor vehicle industry made adjustments by introducing new technologies in product development, differentiation, segmentation and by targeting their customers with improved customer services. Similarly another unpublished research was done by Mucuvi (2002) "a survey of Corporate Governance Practices in the Motor Vehicle Industry in Kenya".

Studies on Responses of organizations to changes in the environment were also done in different industries one of which was the insurance industry where the study was done

by Mwarania (2003) on “responses by Reinsurance companies in Kenya to changes in the environment : The case of Kenya Reinsurance Corporation Ltd and concluded that Kenya Re placed great emphasis on local and international marketing function, deliberate and focused staff training programmes were developed and retrenchments were done three times to rationalise staff. Investments were done in real estate to generate rental income and undeveloped land acquired for future speculative sales. Technology has been embraced including computerisation and creation of a website. Financial investments have been spread out between short and long term ones.

The following were also conducted on strategic responses to various environmental factors. Abdullahi (2000), “A study of the strategic responses by Kenyan insurance companies following liberalization”. He concluded that a good percentage of firms in this industry consider plans as important and prepare strategic plans for their businesses. Kandie, (2001) studied the strategic responses by Telkom Kenya Ltd in a competitive environment. He found out that financial constraints and lack of managerial empowerment has considerably limited capacity to respond to environmental challenges. The study by Isaboke (2001) on investigations of the strategic responses by major oil companies revealed that the level of competition in the industry is very high and that responses to that of entry included products, markets and technology. Transafrica Motors Ltd is a major player in this industry and therefore the responses that are used by them and factors that influence them can be discussed here.

**RESEARCH METHODOLOGY**

**3.1 Research Design**

The research problem presented was studied using the case study method. This method involved in depth investigation and therefore was the best method in getting information on the phenomenon of responses to the environmental challenges faced by Transafrica Motors Ltd.

This research design has been successfully used by similar studies example of which is “responses by reinsurance companies in Kenya to changes in the environment: the case of Kenya Reinsurance Corporation (Kenya Re) Ltd by Mwarania (2003) of University of Nairobi.

**3.2 Data Collection**

A questionnaire was designed to capture detailed information through personal interviews to be conducted by the researcher. In depth interviews were carried out to determine the responses used by the company and the factors that influenced their responses. The interviews were conducted with the departmental heads as they are best placed to know the strategies implemented by the Organization. The departmental heads were the General Manager, the Financial Controller, Head of Human Resource and Administration, Sales Manager, Regional Managers, Project Manager and Business Development Manager. An extract of the questionnaire has been appended (Appendix II).

### 3.3 Data Analysis

#### CHAPTER FOUR

The data analysis sought to establish the responses of Transafrica Motors to challenges experienced by them as well as establish the factors that influenced their choice of response. Data were analysed using content analysis. The reason for choosing the methodology is that it does not restrict the respondent on answers and has potential of generating more information with much detail.

The responses of Transafrica Motors Ltd to challenges of the environment were analysed using the following key words which were advertising campaigns, product developments, market development, customer service, pricing, customer confidence building, cost cutting measures, in house financing, systems implementation, human resource development and market penetration.

The factors that influence Transafrica Motors Ltd were compiled together based on the key words mentioned by management. These key words were affordability of the products, customer satisfaction, customer retention, customer confidence and competition.

## CHAPTER FOUR

### DATA ANALYSIS AND INTERPRETATIONS

#### 4.1 Responses taken by Transafrica Motors Ltd

The responses of the interviewees were discussed under the following themes some of which were advertising campaigns, product developments, market developments, customer service, pricing, customer confidence building strategy, cost cutting measures, in house finance strategy, systems implementation, human resource development and market penetration. All these strategies are discussed on how they are used by Transafrica Motors Ltd in separate sub headings.

##### 4.1.1 Advertising Campaigns

The interviewees talked about how Transafrica Motors Ltd is facing competition from both the dealers of Japanese and European vehicles as well as new dealers in Chinese vehicles. The respondents mentioned that there are a number of competitors that are currently dominant in the Kenyan market and they talked extensively on the new entrants of Chinese motor vehicles dealers. They mentioned that before the end of the year they expect at least ten new entrants in the market.

It was consensus by all respondents that Transafrica Motors Ltd is responding effectively to competition. The respondents said that Transafrica Motors Ltd has embarked very aggressively and effectively in the use of media campaigns. The interviewees also mentioned that Transafrica Motors Ltd is participating in motor shows with the aim of increasing customer awareness and hence able to build customer brand awareness.

### **4.1.2 Product Development**

The interviewees identified that there are so many different models of vehicles available in the market. One of the interviewees said that the only way to attract the vast majority of needs of different customers is for the organization to have different models of vehicles. This he says will manage to satisfy all customer needs. Another interviewee agreed with this sentiment and said that the organization should look into importing affordable saloon cars so as to be able to compete effectively with the importers of Japanese saloon cars. They however agree with each other that Transafrica Motors has responded well as it has quite a vast range of models of vehicles from Prime Movers, Tippers, Pickups, vans and many other models and thus utilising product differentiation strategy.

### **4.1.3 Market Development**

The interviewees mentioned that Transafrica Motors Ltd is currently rolling out its network to Kisumu, Eldoret, Nakuru as well as into other East African Countries like Uganda and thus is counteracting competition by spreading their selling points throughout the region so as to be able to get closer to their clientele. This process they said will enable the organization to develop virgin markets.

### **4.1.4 Customer Services**

The Interviewees agree with each other that Transafrica Motors Ltd provides exemplary customer services some of which include after sales services which are free as well as offering on sight services where mechanics are on standby and go to the sight in case of vehicle breakdowns and repair the vehicles. They also mentioned that the Company offers one year warranties for all its vehicles and this therefore enables the company build and maintain customer confidence in their products.

#### **4.1.5 Pricing**

In our discussions with the Management of Transafrica Motors Ltd they mentioned that Transafrica Motors Ltd imports vehicles which are moderate in terms of their costs compared to those that are Japanese and European. According to the Management Transafrica Motors Ltd focuses its strength on the ability to provide vehicles that are moderate in terms of their prices therefore compete effectively by using the pricing strategy. One of the respondents mentioned that Transafrica Motors Ltd goes a step further by giving discounts to its customers. However, these discounts are not standard; they vary from customer to customer.

#### **4.1.6 Customer Confidence Building Strategy**

The respondents agree with each other that building customer confidence in the product is quite a challenge as there is a lot of bad publicity attached to Chinese products in terms of quality. They agreed with each other however, that Transafrica has responded well by offering regular demonstration of the vehicles in different towns explaining the product.

They mentioned that Transafrica Motors Ltd products come with a one year warranty where in case of any mechanical hitches the company takes care of it on behalf of the affected company free of charge. Transafrica Motors Ltd also offers vehicle service where the different customer bring in there vehicles for services up to a maximum of four services free of charge. Transafrica Motors Ltd also offers a full spare part back up system.

#### **4.1.7 Cost Cutting Measure**

Respondents agree that the duties that have to be paid for full vehicles are very high and therefore making the cost of the vehicle to be on the higher side. One of the respondents



however mentioned that Transafrica Motors has decided to overcome this problem by in the near future introducing there on assembly line where the vehicles will come in different parts and will then be assembled inside the country and hence lowering the duties that have to be paid.

#### **4.1.8 In House Finance Strategy**

One of the respondents mentioned that most of the competitor companies offer in house financing where the companies have a facility of offering credit facilities for the vehicles. According to the respondents Transafrica Motors intends to overcome this problem by tying up with financiers so as to be financing only FAW products. This will therefore according to them be able to attract and motivate other customers who cannot afford to pay cash and therefore ultimately attract higher sales for the company.

#### **4.1.9 Systems Implementations**

According to the Respondents, Transafrica Motors Ltd has adopted systems implementation from other countries for examples India some of which include a change in the software used by the Organization so as to be able to produce better results in terms of reports for the Organization.

#### **4.1.10 Human Resource Development and Training**

According to the respondents Transafrica has also responded by employing more experienced staff and experts in their fields from other countries as well as from Kenya. The company has also employed staff from competitors so as to be able to serve the company in the best way possible.

Transafrica Motors has enrolled their employees in training programmes in order to build employees power and effective delivery of services. Transafrica Motors Ltd also offers

time concessions where their employees are allowed to leave earlier than their counterparts as one of its strategy to support education attainment by their employees.

#### **4.1.11 Market Penetration**

According to the respondents Transafrica Motors Ltd is expanding its networks into Kisumu, Eldoret, Nakuru as well as Uganda and Tanzania. This expansion will assist in capturing and penetrating the new market. At the moment constructions are underway in Eldoret and Kisumu of new showrooms and workshops. Expansions are also happening within Nairobi where Transafrica Motors Ltd is building other outlets for their vehicles as Nairobi is seen by the Management to be quite a big city and therefore requires quite a number of selling points in order to be close to as many customers as possible.

#### **4.2 Other Responses by Transafrica Motors Ltd**

One of the respondents indicated that Transafrica Motors has come up with a Strategic Plan although it is yet to be implemented. The management mentioned that Transafrica Motors Ltd has already drawn the strategic plan however they have not sat to discuss on the way forward so to be able to implement it.

#### **4.3 Challenges that Transafrica Motors Ltd has not responded to**

According to the respondents Transafrica Motors Ltd is yet to introduce an affordable saloon car which will effectively compete with the current market that is highly dominated by Japanese Vehicles.

#### **4.4 Areas that the Company can improve in**

All the interviewees agreed with each other that the company can go a step further and ensure that the product is modified in order to be able to suite the Kenyan roads well. The respondents felt that the company also needs to improve on its public relations.

The respondents added that the company can create public shows in all the major cities that the FAW product is in. The respondents also felt that the company can create demonstrations initiatives in the rural areas so as to create awareness of this product in those areas. The company should also step up on bill board advertisements.

#### **4.5 Factors influencing their response to the challenges**

The respondents felt that by the company investing heavily in both electronic and print media the company will be able to reach a wide range of potential customers as the media now can reach up to 53% of the Kenyan market hence creating public awareness of the existence of this product. The respondents also felt that the aggressive and effective media advertisements blended with effective warranty obligations will manage to breakthrough the barriers of doubt and establish customer confidence in the market where FAW vehicles has managed to sell over 1000 units in Kenya alone.

The respondents felt that by the company spreading out its selling points through out the region as well its intention to venture into Uganda and Tanzania the company will be able to get closer to its clientele and hence be able to contribute in building customer confidence and hence develop and penetrate the market further.

The respondents felt that by the company introducing different vehicles of different models the company will be able to serve different kinds of customers with different demands. The company wants to ensure that it can cater for all their customers.

As a confidence building strategy the company introduced the after sales services where the company offers warranty for its customer to a period of one year. This will be able to ensure that the customers feel confident in the product that they are buying as they will not be liable for any expense that the customer might endure as a result of the product failing to deliver.

The company offers different discounts rates so as to be able to compete effectively when it comes to prices being offered by the competitors. The company's discounts are able to attract new customers and also keep the current customers and thus Transafrica Motors Ltd has experienced repeat purchases from its customers.

Transafrica Motors Ltd offers demonstrations of their products and hence ensures that the customers are well informed on the products and any reservations that the customers might have regarding the product are taken care of.

Transafrica Motors Ltd is in the process of setting up its own assembly line this strategy is in line with the fact that it is cheaper to bring in parts of a vehicle than bringing a complete unit. This will therefore ensure that the duties that have to be paid by the company are on the lower side. This will therefore translate to far cheaper prices for the final consumers and better profits for the company as the costs will be reduced considerably.

The company's strategy of tying up financiers to the FAW product is to be able to ensure that all the customers who would like to own a vehicle but cannot afford to can be taken care of without the hassle of looking up for funds elsewhere or having to lose that sale all together.

The company has also implemented new systems that have been successfully used in other countries for example India. The new system is meant to assist the company in

producing reports that will serve the company in being able to make better decisions at the right time.

## SUMMARY, DISCUSSIONS AND CONCLUSIONS

The company has also brought in experienced staff both in the administrative and technical sectors. Some of these staffs are expatriates from India and China. These staffs are meant to bring in expert knowledge in their areas of expertise and assist in ensuring that the Organization is run successfully as well as ensuring that all customer issues and expectations are taken care of. Transafrica Motors has also employed staff from their competitors so as to be able to bring in an insight and their experience in the best way of running the Organization to success.

Other responses included introduction of different models of vehicles so as to be able to satisfy all customer requirements, increase in the number of branches so as to be able to get closer to the customers, offering after sales services and warranties, offering discounts to its clients, demonstrations of the vehicles in different towns, opening up of an assembly line, tying up financiers so as to finance only FAW vehicles and employing of experienced and well trained staff.

Source of supply was a strategy that was identified as the major strength from the findings and is in agreement in a study done earlier in the motor vehicles industry by Kombo (1997), where he mentioned that the source of supply of goods is important in order to be able to attain the cost competitive strategy.

Brand awareness was another strategy identified which is supported by findings of Wairachu (2000), Abeka (1996) and Kombo (1997) the firms had significantly increased advertising expenditure to create brand awareness and attract potential customers.

Cost leadership is another strategy that is being used by Transafrica Motors Ltd. This is confirmed by the findings from the study where cost reduction strategies are used. These findings are supported by findings of Abeka (1996), who concluded that most companies

## CHAPTER FIVE

### SUMMARY, DISCUSSIONS AND CONCLUSIONS

#### 5.1 Summary, Discussions and Conclusions

The first objective of the study was to establish the responses TAM has adopted to cope with the challenges in the environment. The findings of the study indicate that the responses by TAM included increase in media campaigns through print media examples of which are newspapers and magazines as well as participation in motor shows.

Other responses included introduction of different models of vehicles so as to be able to satisfy all customer requirements, increase in the number of branches so as to be able to get closer to the customers, offering after sales services and warranties, offering discounts to its clients, demonstrations of the vehicles in different towns, opening up of an assembly line, tying up financiers so as to finance only FAW vehicles and employing of experienced and well trained staff.

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Cost leadership is another strategy that is being used by Transafrica Motors Ltd. This is confirmed by the findings from the study where cost reduction strategies are used. These findings are supported by findings of Abeka (1996), who concluded that most companies

undergo internal organization where they make their organization flatter and hence cost effective.

From the study, it was established that product development is another strategy that is being used by Transafrica Motors Ltd to overcome competition. Wairachu (2000) concluded that oil companies monitored the quality of their products. Kombo (1997) on the other hand also concluded that motor vehicles franchise holders had adjusted their product strategies in response to competition.

Customer service was another strategy identified from this study where after sales services are of utmost importance in order to reduce complaints from customers. These findings are supported by a study done by Kombo (1997) where he concluded that firms increased marketing research expenses in order to satisfy their customers and beat competitors.

Market development was found out to be another response strategy that was being used by Transafrica Motors Ltd. This is supported by the results from the study of Kombo (1997) where he concluded that motor franchise holders increased their initiatives to seek new domestic markets.

Market penetration was also another response strategy that was identified from the findings of the study. This is supported by the finding of Mohamed (1995), where he found out that franchise motor vehicle holders used marketing strategies to compete with dealers of imported reconditioned motor vehicles. Pricing strategy and Human resource development and training are also some of the other strategies that emanated from this study.

From the foregoing discussions it has emerged that the motor vehicle industry is a very competitive industry with a number of dealers present in the market dealing with both new and reconditioned vehicles. Transafrica Motors Ltd therefore has to be very creative

in the kind of responses that they use so as to be able to beat the enormous challenges that they face. Transafrica Motors Ltd has a substantial response rate however, the same can be increased.

The second objective of the study was to establish factors influencing the responses to the challenges. Some of these factors influencing the responses taken by Transafrica Motors Ltd included competition, brand awareness, product development, building customer confidence, market penetration, competitor prices, customer confidence in the product, higher profits, attract all customers, producing better results.

Transafrica Motors Ltd is dealing in a brand of vehicles that is not familiar to the Kenya market it therefore has to do a lot of advertising so as the product becomes familiar in the market. This is supported by findings of Wairachu (2000), Abeka (1996) and Kombo (1997) the firms had significantly increased advertising expenditure to create brand awareness and attract potential customers. Transafrica Motors should therefore, put up a lot of bill boards on all major roads in Kenya, include as part of their advertising campaigns television commercials as well as radio. Transafrica Motors Ltd can also enlist the assistance of the main company that is the First Automobile Works of China so as assist the company in popularising the product both in Kenya and throughout East and Central Africa.

Transafrica Motors Ltd deals in Chinese vehicles which are a new phenomenon in the Kenyan market and Chinese vehicles have been portrayed by the world media as to be of inferior quality. Transafrica Motors Ltd therefore has to put in extra effort in proving that these vehicles are of reputable quality and indeed they can compete with the other brands that are already in the Kenyan market. Transafrica Motors Ltd has been doing demonstrations of its vehicles to its customers so as to be able to win their confidence.

From the foregoing discussions it has emerged that Transafrica Motors Ltd should introduce their products in East and Central Africa in order to increase brand awareness



of its products as well as attract higher profits by penetrating the new markets. In order for them to attract all kinds of customer they should also introduce the saloon cars so as to be able to compete effectively with other competitors. They should also ensure that the product they are selling is fully compatible with the Kenyan roads in order to increase customer satisfaction and confidence.

## **5.2 Limitations of the Study**

During the course of the study a number of problems were encountered one of which was information on the company was not readily available as some information is considered sensitive and therefore could not be divulged. The second limitation that was faced was that information on the competitors of Chinese vehicles was not readily available as most of the companies were fairly new.

## **5.3 Recommendations for further research**

The research was based on only one company in the motor vehicle industry another research could be done where one would consider a number of companies in the motor vehicle industries so as to be able to get more strategies that are being used by other dealers. The research also was focused on the motor vehicle industry however; a similar study can be done on companies in different industries to see whether there is any similarity on strategies used by different industries.

## **5.4 Recommendations for Policy and Practice**

Transafrica Motors Ltd needs to respond much more strongly to the emerging threats of new entrants and the existing dealers. It is obvious from the research findings that despite the strategies used; the company is still faced by competitive pressure exerted by the competitors. It will therefore be necessary for the company to innovate in its areas of marketing and product development.

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Transafrica should proceed and communicate its strategic plan to its employees and the same should be implemented as soon as possible so as to ensure that the company can perform in the best way possible.

Most of strategies used by Transafrica Motors are generic strategies which are common among many organizations. Transafrica Motors should come up with strategies that are unique to them so as to be able to put them in the map to success.

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Mrs. Saada Hamid Mohamed  
P.O. BOX 41440  
Nairobi  
Kenya

TransAfrica Motors (K) Ltd  
P.O. BOX 11224  
Nairobi  
Kenya

Dear respondent,

### RE: QUESTIONNAIRE FOR MANAGEMENT RESEARCH PAPER

I am a Postgraduate student currently studying an MBA Degree at the School of Business, University of Nairobi. I am currently conducting a management research project to partial fulfillment of the requirement for the Masters of Business Administration (MBA) degree. My topic of research is "Responses of TransAfrica Motors Ltd to environmental challenges in the motor vehicle industry in Kenya."

The questionnaire is designed to gather information on the responses used by TransAfrica Motors Ltd to cope with environmental challenges and factors that influence their responses.

Your assistance will be highly appreciated.

Yours sincerely,

Saada Hamid Mohamed  
MBA STUDENT

## APPENDICES

### APPENDIX 1: LETTER OF INTRODUCTION

Mrs. Saada Hamid Mohamed,  
P.O BOX 41660,  
Mombasa,  
Kenya.

Transafrica Motors (K) Ltd  
P.O BOX 81523,  
Mombasas  
Kenya.

Dear respondent,

#### **RE: QUESTIONNAIRE FOR MANAGEMENT RESEARCH PAPER**

I am a Postgraduate student currently studying an MBA degree at the School of Business, University of Nairobi. I am currently conducting a management research project in partial fulfilment of the requirement for the Masters of Business Administration (MBA) degree. My topic of research is **“Responses of Transafrica Motors Ltd to environmental challenges in the motor vehicle industry in Kenya.**

The questionnaire is designed to gather information on the responses used by Transafrica Motors Ltd to cope with environmental challenges and factors that influence their responses.

Your assistance will be highly appreciated.

Yours sincerely,

Saada Hamid Mohamed  
MBA STUDENT



## **APPENDIX II: QUESTIONNAIRE**

### **SECTION A: RESPONDENT'S PROFILE**

Position Held -----

### **SECTION B: RESPONSES**

1. Has Transafrica Motors responded to the environmental changes? YES/NO.
2. Please explain in how Transafrica has responded to the challenges identified.
3. Are there any other responses that Transafrica has made as a result of the changing competitive situation facing the company?
4. Are there any challenges that Transafrica has not responded to and why?
5. Do you consider the company's strategic responses to competition adequate?
6. What else do you feel Transafrica should do to stay competitive?
7. What areas have improved in the company?
8. In your assessment, does Transafrica currently possess the necessary capability to adopt aggressive strategies to match the external environmental changes?

### **SECTION C: FACTORS INFLUENCING THE RESPONSES**

1. What factors have influenced the responses taken by Transafrica Motors?  
Please explain.