"AN INVESTIGATION OF THE STRATEGIC RESPONSES BY MAJOR OIL COMPANIES IN KENYA TO THE THREAT OF NEW ENTRANTS."

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BY:

STEPHEN M. ISABOKE

UNIVERSITY OF NAIROBI
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A management research project submitted in partial fulfillment of the requirements for the degree of Master of Business Administration (MBA), Department of Business Administration, Faculty of Commerce, University of Nairobi.

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DECLARATION

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

Signed: ______________________. Date: 24-10-2001

STEPHEN M. ISABOKE

UNIVERSITY OF NAIROBI
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This project has been submitted for examination with my approval as a University supervisor.

Signed: ______________________. Date: 24-10-01

PROF. PETER O. K'OBONYO

Department of Business Administration,

Faculty of Commerce, University of Nairobi.

DEDICATION

In the memory of my late mother,

Mama Selina Nyabonyi Moraa Isaboke,

her virtues of hard-work, foresight, diligence, resilience

devotion, dedication, determination, patience, persistence, integrity,

honesty and wisdom imparted to me in my formative years,

have continued to guide me through life's journey

and enabled me to be what I am today.

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TABLE **LIST OF TABLES** PAGE

TABLE 4.2.1: YEAR OF ESTABLISHMENT OF THE MAJOR OIL COMPANIES……34

TABLE: 4.2.2: NATURE OF OWNERSHIP OF THE MAJOR OIL COMPANIES……35

TABLE: 4.2.3: LEVEL OF COMPETITION……35

TABLE 4.2.4: EXTENT OF IMPORTANCE OF BUSINESS OBJECTIVES……36

TABLE 4.3.1: PROBLEMS POSED BY THE NEW ENTRANTS……38

TABLE 4.3.2: THE INFLUENCE OF OTHER FORCES ON THE COMPETITIVE ENVIRONMENT……39

TABLE 4.3.3: IMPACT OF NEW ENTRANTS ON THE BUSINESS OF THE MAJOR FIRMS……40

TABLE 4.4.1: STRATEGIC RESPONSES BY THE MAJOR OIL COMPANIES TO THE THREAT OF NEW ENTRANTS……41

TABLE 4.4.2: IMPORTANCE OF STRATEGIC OPTIONS FOR RESPONDING TO THE THREATS POSED BY NEW ENTRANTS……42

TABLE 4.4.3: IMPORTANCE OF COMPANY-INITIATED STRATEGIC CHANGES IN RESPONSE TO CHANGES IN THE COMPETITIVE ENVIRONMENT……43

TABLE 4.4.4: OTHER STRATEGIES TO COUNTER THE NEW ENTRANTS……44

ABSTRACT

The study sought to investigate the strategic responses by the major oil companies in Kenya to the threat of new entrants into the industry. It was based on the five oil companies which started their operations before the market was liberalized to allow new competitors. The objectives of the study were firstly, to investigate the strategic responses that the major oil companies have used to counter the threat of new entrants into the industry. Secondly, to identify the future challenges posed by the new entrants and the likely strategic responses by the major oil companies. The study was based on primary data which was collected using a questionnaire using personal interviews as the mode of collection. The data obtained from the five major oil companies was then analyzed and interpreted using descriptive statistics primarily Proportions, Percentages and the Mean.

The findings of this study reveal a number of strategic responses used to counter the threat of new entrants into the Kenyan oil industry. In responding to the changes, the major oil companies used a combination of generic strategies including cost leadership, differentiation, market focus, segmentation, penetration and development of new markets. We also established that majority of the major companies in responding to the threat of new entry changed products and services offered, the market segment served and had also effected a change in technology.

In view of the findings, a few observations have been made. Firstly, companies in an industry where there is a threat of new entry need to proactively anticipate and strategically respond to the changing environment. Secondly, there are a number of strategic options available for companies intending to respond in the face of new and growing competition.

CHAPTER **TABLE OF CONTENTS** **PAGE**

DECLARATION....i
DEDICATION....ii
ACKNOWLEDGEMENTS....iii
LIST OF TABLES....iv
ABSTRACT....v

INTRODUCTION....1

1.1 BACKGROUND....1

1.1.1 Background of the world oil industry....1

1.1.2 Background to the development of the oil industry in Kenya....3

1.1.3 The deregulation(s) and liberalization in the Kenyan oil industry....3

1.1.4 A synopsis of the interplay of the five competitive forces....7

1.2 STATEMENT OF THE PROBLEM....11

1.3 OBJECTIVES OF THE STUDY....12

1.4 IMPORTANCE OF THE STUDY....12

LITERATURE REVIEW....14

2.1 INTRODUCTION....14

2.2 THE EMERGING COMPETITION FOLLOWING LIBERALIZATION....14

2.3 THE FIVE FORCES OF COMPETITION....16

2.3.1 Bargaining power of suppliers....18

2.3.2 Bargaining power of buyers....19

2.3.3 Threat of substitute products....20

2.3.4 Intensity of rivalry among existing competitors....21

2.3.5 The Threat of New entrants....22

RESEARCH METHOD 30

3.1 RESEARCH DESIGN 30

3.2 POPULATION OF STUDY 30

3.3 DATA COLLECTION 31

3.4 DATA ANALYSIS AND INTERPRETATION 31

DATA ANALYSIS AND FINDINGS 33

4.1 INTRODUCTION 33

4.2 FIRM CHARACTERISTICS 33

4.3 THE THREAT ON NEW ENTRANTS 36

4.4 STRATEGIC RESPONSES BY THE MAJOR OIL COMPANIES TO THE THREAT OF NEW ENTRANTS 39

4.5 FUTURE CHALLENGES 44

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS 46

5.1 DISCUSSION 46

5.2 CONCLUSIONS 54

5.3 RECOMMENDATIONS 55

5.4 LIMITATIONS OF THE STUDY 55

5.5 SUGGESTIONS FOR FURTHER RESEARCH 56

REFERENCES 57

APPENDICES 63

APPENDIX I: LETTER OF INTRODUCTION *63*

APPENDIX II: QUESTIONNAIRE *64*

APPENDIX III: LIST OF MAJOR OIL COMPANIES USED IN THE STUDY *71*

CHAPTER ONE

INTRODUCTION

1.1 Background

Kenya's oil industry has undergone considerable changes since the liberalisation process began with a number of licenses having been granted to intended new entrants to the market, (Abeka, 1996; Institute of Economic Affairs, 2001). Competition has intensified and the rules of the game have drastically changed.

The oil industry plays a significant role in the economy of any country since petroleum fuel is a major source of energy, it is often described as the wheel that moves the nation. In Kenya, the industry accounts for over 20% of the GNP (Government of Kenya, 2000). In terms of consumption, the transport sector is the largest consumer of petroleum products at approximately 60 per cent of the total volume, followed by manufacturing (16 per cent), commercial establishments (11 per cent), household use (9 per cent, made up of liquefied petroleum gas for cooking, and Kerosene for lighting and cooking) and agriculture (4 per cent), (Nyoike, 1999).

1.1.1 Background of the world oil industry

The history of the oil industry can be traced to Pennsylvania, United States of America with the establishment of the Standard Oil Company by John D. Rockfeller in 1870 whose key business was the refining, distribution and transportation of oil throughout America. Over the years, the company expanded its operations on a continental scale. In

addition, it owned many subsidiary companies which exported oil world-wide. The company was, however, broken up through anti-trust legislation in 1911 for acting as a monopoly in restraint of trade. The company's divestiture from all its subsidiaries resulted in the emergence of thirty-eight smaller companies (Sampson, 1976).

The oil industry thereafter came to be dominated by the multinational petroleum corporations. For over sixty years, it was under the direct control of the companies termed as "the Seven Sisters" or the international majors. These were; Exxon (Esso), Gulfoil, Texaco, Mobil, Chevron, British Petroleum (BP) and Shell, three of which (Exxon, Mobil and Chevron) were direct offshoots of Rockfeller's Standard Oil Trust (Sampson, 1976).

At the height of their dominance over the world market, the International majors controlled over 80% of the world's oil production. They, however, faced competition from other American oil companies dubbed "the independents." These included Standard Oil of Indiana (Amoco), Standard Oil of Ohio (Sohio), Conoco, Atlantic Richfield, Continental, Marathon and Occidental. European state-owned multinational oil corporations had also penetrated the industry. These included Ente Nazionale Idrocarburi / AGIP of Italy and Compagnie Francaise des Petrles / TOTAL of France. These corporations had also expanded into many parts of the world, engaging in refining and marketing operations while also participating in production ventures (Odell, 1974; Sampson, 1976).

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1.1.2 Background to the development of the oil industry in Kenya

The first multinational oil company is thought to have started its operations in Kenya at the turn of the 20th Century. The first operations by the major oil companies were set up at the Port town of Mombasa from where expansion was made to the rest of East Africa consisting of Kenya, Uganda and Tanzania.

Kenya is not a producer of petroleum. It imports petroleum chiefly from the Persian Gulf area, most of it as crude oil, with refined petroleum products (mainly from the Mediterranean market) accounting as yet for a small, but rising, share of the total import. The crude oil is refined in the country's only refinery (Kenya Petroleum Refineries Limited) at the port city of Mombasa and transported inland by pipeline, road and rail, (Nyoike and Okech, 1999).

1.1.3 The deregulation(s) and liberalisation in the Kenyan oil industry

By 1963 the present market players in the Kenyan oil industry had already been established. These include; Shell/ BP, Esso, Caltex, Mobil, Total and Agip. All were subsidiaries of multi-national oil corporations. The oil industry was at this time partly deregulated as the only significant control was the "white oil rule" which forbade the oil companies from importing refined petroleum products as a measure to protect the commercial interests of the Mombasa based refinery. The market for petroleum products was very small largely due to Kenya's infancy in industrialisation, low urban population and low consumer affluence. Competition for the small market was stiff with the oil companies resorting to heavy advertising and sales promotion.

The period of partial deregulation ended when the government introduced price controls on petroleum products in 1971. The government then purchased 50% of the refinery's share holding from the original owners; Shell/ BP, Esso and Caltex. A new company, the Kenya Petroleum Refineries Limited was formed. The introduction of price controls (1971 - 1974) was partly caused by government's view of excessive spending on advertising by oil companies. It was felt that the savings resulting from reduced spending could be passed to the consumer in form of lower petroleum prices. The shift in policy was also in line with the prevailing economic thought which favoured increased government involvement in all sectors of the economy (Government of Kenya, 1994).

The second deregulation took place in October 1994 and was intended to remove government controls hindering the free play of the forces of demand and supply. This led to the removal of price controls and freedom for oil companies to purchase petroleum products from the most competitive sources.
Government participation remained in the form of policy formulation and investments in supply and marketing infrastructure owned by the Kenya Pipeline Company, the Kenya Petroleum Refineries Ltd., and the National Oil Corporation of Kenya. While the public sector has retained a strong presence in storage, refining and bulk distribution, the pricing and marketing of refined products is entirely in the hands of private sector. The government remains a provider of an enabling environment for the sub-sector, restricting state investment and control to those infrastructures where private sector investment may be un-viable, unattractive or in restraint of competition.

Nyoike and Okech, (1999), provide a fairly detailed and revealing analysis of what these barriers are, chief among them the investment cost of setting up a new retail outlet and the terms and conditions for loan financing, the unwillingness of established companies to offer bulk storage facilities, and the insistence by the companies that new entrants import and process a certain minimum volume of crude oil at Kenya Petroleum Refineries Limited (KPRL) in order to be allowed to use the pipeline.

Expansion of the retail network to small towns and the rural areas will continue to be unattractive to the established big suppliers, who operate entirely on commercial principles. An extension to non-metropolitan areas is likely to happen, if at all, with the entry of local entrepreneurs (Nyoike and Okech, 1999).

In it's report on the petroleum sub-sector, The Institute of Economic Affairs (2001) state that at the time liberalisation of the petroleum industry began, international oil companies with subsidiaries in Kenya largely dominated the market. Besides the multi-national petroleum marketers were state corporations whose market share was far lower than that of the major international companies. The multinational corporations based in Kenya controlled well above 85% of the total market. The expectation was that liberalisation would allow the entry of more players into the market in order to intensify competition and improve efficiency. This was to be achieved through the reduction of government influence by lifting price and supply controls thereby making the industry attractive to new investors. As the liberalisation and deregulation was going on, the government expressed the willingness to register more foreign and local firms to begin market operations. While new licenses were issued, few firms actually began meaningful

operations. These expectations were not fulfilled because the deregulation did not by itself sufficiently lift the barriers to entry (Institute of Economic Affairs, 2001). The main barriers include; heavy capital investment requirements, sourcing economies of scale, and backward linkages.

The majors in the oil industry in Kenya are today faced with the proliferation of new entrants who have intensified competition. The industry is also faced with strong forces that are unfavourable to business for example some key players who have strong bargaining powers such as the Power Sector (Kenya Power Lighting Company), big industrial customers, commercial road transporters and Kerosene resellers are forcing the major oil companies to engage in price wars through heavy discounting, (Nyoike and Okech, 1999). This finding corroborates well with the findings made by Mohamed (1995) while studying the effects of reconditioned and used imported motor vehicles in the marketing mix of franchise and subsidiary motor vehicle companies found that the competitive environment in Kenya has changed following the entry of new competitors.

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New entrants into the oil industry are fast taking root in the Kenyan market. They include; Engen, National Oil Corporation of Kenya (NOCK), Fuelex, Elf, Petrol, Triton, Galana, and Jovenna. Addressing members of Petroleum Institute of East Africa, former Energy Minister Chris Okemo said that liberalisation was not let in to usher in-discipline and recklessness in the oil industry. However, this was contested via complaints from the independent dealers that they are being unfairly victimised, to the benefit of multinational companies (Ondieki, 1999). The situation facing oil companies in Kenya tallies with Ansoff (1990), who thought that a new kind of turbulence has increasingly made itself

felt in most industries. The new turbulence came from unaccustomed and unfamiliar sources.

1.1.4 A synopsis of the interplay of the five competitive forces

The collective strength of the forces may be painfully apparent to all the antagonists; but to cope with them, to better understand the interplay of the forces pertinent in an industry, the strategist must delve below the surface and analyse the sources of competition. For example, what makes the industry vulnerable to entry? (Pearce and Robinson, 1991).

The strongest competitive forces determine the profitability of an industry and so are of greatest importance in strategy formulation. For example, even a company with a strong position in an industry threatened by potential entrants will earn low return if it faces a superior or a lower-cost substitute product.

Different forces take on prominence in shaping competition in each industry.

Every industry has an underlying structure, or a set of fundamental economic and technical characteristics, that gives rise to these competitive forces. The strategist, wanting to position his or her company to cope best with its industry environment or to influence that environment in the company's favour, must learn what makes the environment tick. A few characteristics are critical to the strength of each competitive force. They will be discussed below;

1.1.4.1 Power of Suppliers: Suppliers can exert bargaining power on participants in an industry by raising prices or reducing the quality of purchased goods and services. Powerful suppliers, thereby, can squeeze profitability out of an industry unable to recover cost increases in its own prices. The power of each important supplier group depends on a number of characteristics of its market situation and on the relative importance of its sales or purchases to the industry compared with its overall business.

1.1.4.2 Power of Buyers: Customers likewise can force down prices, demand higher quality or more service, and play competitors off against each other- all at the expense of industry profits. A buyer group is powerful if; it is concentrated or purchases in large volumes, the products it purchases from the industry are standard or undifferentiated, the products it purchases from the industry form a component of its products and represent a significant fraction of its cost, it earns low profits which create great incentive to lower its purchasing costs, the industry's product is unimportant to the quality of the buyers' products or services, the industry's product does not save the buyer money, the buyers pose a credible threat of integrating backward to make the industry's product.
Most of these sources of buyer power can be attributed to consumers as a group as well as to industrial and commercial buyers. Consumers tend to be more price sensitive if they are purchasing products that are undifferentiated, expensive relative to their incomes, and of a sort where quality is not particularly important.

1.1.4.3 Threat of Substitute Products: By placing a ceiling on the prices it can charge, substitute products or services limit the potential of an industry. Unless it can upgrade

the quality of the product or differentiate it somehow (as via marketing), the industry will suffer in earnings and possibly in growth. Manifestly, the more attractive the price-performance trade-off offered by substitute products, the firmer the lid placed on the industry's profit potential. Substitutes not only limit profits in normal times but also reduce the bonanza an industry can reap. Substitute products that deserve the most attention strategically are those that; (a) are subject to trends improving their price-performance trade-off with the industry's product or (b) are produced by industries earning high profits. Substitutes often come rapidly into play if some development increases competition in their industries and causes price reduction or performance improvement.

1.1.4.4 Competitive Rivalry among Existing Firms: Rivalry among exiting competitors takes the familiar form of jockeying for position-using tactics like price competition, product introduction, and advertising slugfests. This type of intense rivalry is related to the presence of a number of factors; Competitors are numerous or are roughly equal in size and power, industry growth is slow, precipitating fights for market share that involve expansion minded members., the product or service lacks differentiation or switching costs, which lock in buyers and protect one combatant from raids on its customer by another, fixed costs are high or the product is perishable, creating strong temptation to cut prices, capacity normally is augmented in large increments, exit barriers are high, the rivals are diverse in strategies, origins and "personalities". They have different ideas about how to compete and continually run head-on into each other in the process.

As an industry matures, its growth rate changes, resulting in declining profits.

1.1.4.5 Threat of New Entrants: New entrants to an industry bring new capacity, the desire to gain market share, and often-substantial resources. The seriousness of the threat of entry depends on the barriers present and on the reaction from existing competitors that the entrant can expect. If barriers to entry are high and a new comer can expect sharp retaliation from the entrenched competitors, he or she obviously will not pose a serious threat of entering. There are six major sources of barriers to entry: Economies of Scale, Product Differentiation, Capital Requirement, Cost Disadvantages Independent of Size, Access to Distribution channels and Government Policy.

The incumbents possess substantial resources to fight back, including excess cash and unused borrowing power, productive capacity, or clout with distribution channels and customers. The incumbents seem to cut prices because of a desire to keep market shares or because of industry wide excess capacity. While a company must live with many of these factors- because they are built into the industry economics-it may have some latitude for improving matters through strategic shifts.

Murage (2000), in her study of the strategies used by the Kenya Independent Petroleum Dealers Association (KIPEDA) found that the Kenyan oil industry is very competitive, these findings are supported by (Abeka 1996; Wamathu, 1999). Murage, (2000) also found that profitability and growth were important goals among the new entrants in the oil industry. Wairachu (2000), in his study on the changes made in the marketing mix following liberalisation in the oil industry found that there was unfair playing ground

arising from illegal activities of new entrants, such as putting up of inferior filling stations some of which pose a threat to the safety of the public, increased incidences of fuel adulteration and petroleum products meant for export finding its way back into the local market. Murage (2000) also established that lower prices, discounts and strategic locations were among the reasons enticing prospective customers to visit their outlets. This is likely to put more pressure on the major oil companies. Kenya's oil industry is at the cross-roads. Oil companies are making attempts to adjust to the new business environment in which competition in the industry is expected to increase. Kim and Mauborgne (1999), thought that competing head to head can be cut-throat, especially when markets are flat or growing slowly. Which is the situation currently pertaining in the Kenyan oil industry.

1.2 Statement of the Problem

Following the liberalisation of the oil industry in Kenya, there has been increased competition brought about by the new entrants. While strategic responses to new entry has been documented elsewhere, the Kenyan situation is unique due to the concern by the major players that there is a lack of a level playing field as the new entrants are seen to be using unfair trading practices. For example, fuel adulteration and putting up of substandard retailing stations which do not meet the minimum safety standards for the handling of oil products.

The concept of the threat of new entrants has been emphasised to this day due to deregulation, liberalisation and globalisation but it has not been investigated empirically

in the Kenyan context. The oil industry impacts on virtually all sectors of an economy, it is therefore important to conduct a study to find out the strategies the major oil companies are using to respond to the threat posed by the new entrants as having adequate responses will be critical to their sustainable participation in the industry into the future.

1.3 Objectives of the Study

1.3.1 To investigate the strategic responses that the major oil companies have used to counter the threat of new entrants into the industry.

1.3.2 To identify the future challenges posed by the new entrants and the likely strategic responses by the major oil companies.

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1.4 Importance of the Study

1.4.1 The study will benefit the major oil companies as it is expected to establish the adequacy and or capability of the majors' response to the ever changing environment in the face of deregulation and liberalisation. The findings are expected to help the major industry players identify any strategic gaps in their strategic responses and which they could exploit in order to cope with the emerging threat of new entrants.

1.4.2 The study will help Government agencies and policy makers to develop policy frameworks that take into account the diverse needs of the different stakeholders in the oil industry.

1.4.3 The study will contribute to the existing literature in the field so that academicians could use it as a basis for further research.

1.5 Structure of the Research Paper

The paper has five chapters whose contents are outlined below;

Chapter One: Introduction

This chapter contains the background of the oil industry in Kenya, the statement of the research problem, the objectives of the study and the importance of the study.

Chapter Two: Literature Review

This chapter covers a review of the literature on the Kenyan oil industry's Five Forces of competition with a major focus on the threat of new entrants.

Chapter Three: Research Method

This chapter carries information on the research method used. It covers the research design, population of study, data collection, analysis and interpretation.

Chapter Four: Results of the Study

This chapter contains data analysis and research findings.

Chapter Five: Discussion, Summary and Conclusions

This chapter carries the synthesis of research findings, summary, conclusions, the limitations of the study and suggestions for further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of some of the relevant literature published on the subject of study. The review opens with the emerging competition following liberalisation. The main part of the literature looks at the five forces of competition in the Kenyan oil industry with an emphasis on the threat of new entrants. Some research has been done on the effect of liberalisation, but no research focused on the threat of new entrants has been done in Kenya. Relevant examples on the effect of liberalisation on the competitive forces will be used.

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2.2 The emerging competition following liberalisation

Hill (1995), observed that in many industries competition can be viewed as a process driven by innovation. Competition among the oil marketing companies in Kenya has intensified. Prior to deregulation, the government set the operating margins for oil marketers. Efficiency was therefore not a prerequisite for survival and success in the industry. Under deregulation, however, the market players have to set their own profit margins. The companies have to compete on price, product quality and service offered to customers, (Nyoike and Okech, 1999). Sull (1999), wrote that when successful companies face big changes in their environment, they often fail to respond effectively.

In 1996, the five subsidiaries of six oil transnational corporations (Shell/ BP, Caltex, Mobil, Agip and Total, in descending order of market share) were together accounting for

approximately 85 per cent of the marketing and retailing, the remaining 15 per cent going to two local companies (Kenol and Kobil).

Kombo, (1997) in his study on strategic response by Motor Vehicle Franchise Holders in Kenya facing changed environmental conditions, found that for firms to be effective and hence successful, they should adapt appropriately to the changes that occur in their respective environments. Such adaptations may be referred to as strategic responses, (Schendel and Hofer, 1979).

Day (1999), found that a firm's orientation to its present and prospective markets is subject to two pressures. On one side are the centripetal influences that induce the company to look inward for guidance on decisions and become remote from customers and unresponsive to competitive challenges. This influence is accentuated by a "liability of success" where good performance leads to arrogance, overconfidence, and a technology orientation that condones the belief that "we know better than the market." Compounding the problems are the centrifugal effects of the market, technology and competitive change that continually pull the business out of alignment with its markets and erode its advantages. The interplay of these forces leads to one more of the following triggers for change:

(i) Market disruptions that threaten the business model.

(ii) Continuing erosion of alignment with the market that puts the firm at a disadvantage with the market driven competitors.

(iii) Strategic necessity

(iv) Intolerable opportunity costs.

The above scenario describes the situation pertaining among the major oil companies in the Kenya. The Total Kenya Annual Report (2000), reported that the increase of the participants in the oil industry and the attendant issues of safety, health presented a challenge to industry as a whole. In the retail channel, the continued price war has had an adverse effect on margins. Aosa (1992), found that companies used strategy to develop competitive edge over their rivals. As complexity increased, companies reacted differently in trying to develop and maintain their edge over competitors.

2.3 The Five Forces of competition

Porter's five forces of competition can be used to gain insight into competitive dynamics in an industry. It offers a richer view of the competition by capitalising on the interrelationships of five powerful and dynamic forces. The five forces are: potential entry, the power of buyers, the power of suppliers, substitutes, and rivalry among existing competitors, (Porter, 1980; Pearce and Robinson, 1994; Thompson and Strickland, 1987; and Byars, *et al*, 1996). Aosa (1992), found that for the competitive strategy model to be applicable to Kenya, it required the inclusion of additional strategic forces when compared to similar models put forward in developed country contexts. This new model had the following forces; Customers, Suppliers, Competitors, Logistics, Power Play and Government. The essence of formulating competitive strategy is relating a company to its environment. Although the relevant environment is very broad, encompassing social as well as economic forces, the key aspect of the firm's environment is the industry or industries in which it competes. Industry structure has a strong influence in determining

the competitive rules of the game as well as the potential strategies available to the firm. The intensity of competition in an industry is rooted in its underlying economic structure and goes well beyond the behaviour of current competitors, (Porter, 1980).

The state of competition in an industry depends on five competitive forces as shown in figure below;

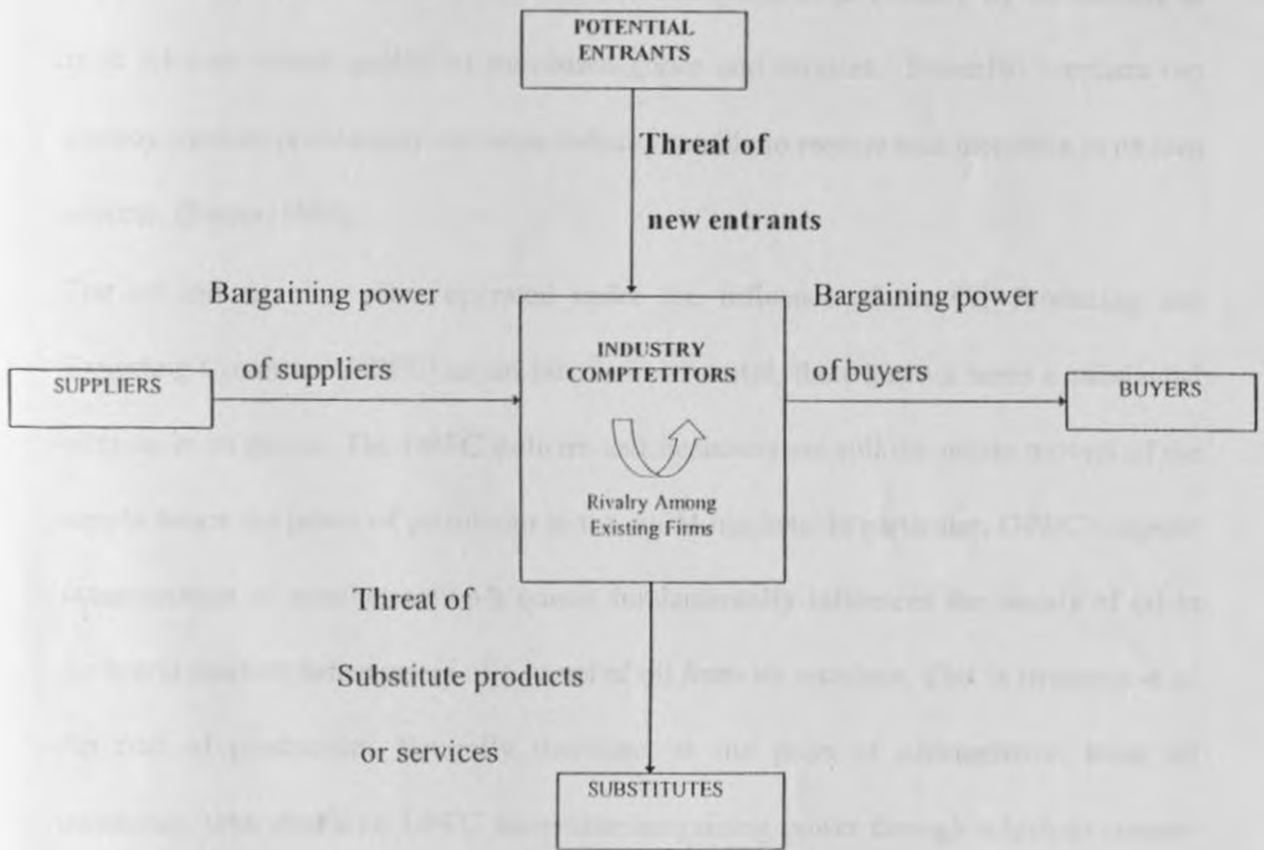

FIGURE 2-2. Forces Driving Industry Competition;
Source: Porter M.E., Competitive Strategy (New York: Free Press, 1980).

All five competitive forces jointly determine the intensity of industry competition and profitability and the strongest force or forces are governing and become crucial from the point of view for strategy formulation. Different forces take on prominence in shaping

competition in each industry. While the research focuses on the threat of entry of new and potential competitors, we shall briefly examine how each of the forces has influenced the level of competition in the oil industry in Kenya.

2.3.1 Bargaining power of suppliers

Suppliers can exert bargaining power over participants in an industry by threatening to raise price or reduce quality of purchased goods and services. Powerful suppliers can thereby squeeze profitability out of an industry unable to recover cost increases in its own process, (Porter, 1980).

The oil industry has often operated under the influence of the Oil Producing and Exporting Countries (OPEC) as an international cartel, there has not been a substantial dilution in its power. The OPEC policies and decisions are still the prime movers of the supply hence the prices of petroleum at the world markets. In particular, OPEC's regular determination of member nation's quotas fundamentally influences the supply of oil in the world markets hence prices of a barrel of oil from its members. This is irrespective of the cost of production. Naturally therefore, at the point of procurement, most oil purchasers who deal with OPEC have little bargaining power through which to counter OPEC decisions. Given that a majority of developing countries have no option with regard to the procurement of oil, OPEC stands to be the major force in the determination of the world prices of oil for the foreseeable future (Institute of Economic Affairs, 2001).

In Kenya, Murage (2000) established that the new entrants into the oil industry depended on the major companies for their supplies although they are fierce competitors, this

symbiotic relationship complicates the competitive position for the independents who were found to be looking for "reliable" suppliers.

2.3.2 Bargaining power of buyers

Buyers compete with the industry by forcing down prices, bargaining for higher quality or more services and playing competitors against each other – all at the expense of industry profitability. The power of each of the industry's important buyer groups depend on a number of characteristics of its market situation and on the relative importance of its purchase from the industry compared with its overall business, (Porter, 1980).

Crude oil prices in the world markets do not always correlate perfectly with consumer prices in many markets, including Kenya. In many countries that are importers of petroleum products, the major component in the consumer price is often the taxes extracted by the government, (Institute of Economic Affairs, 2001).
Regarding the local oil companies customers, Nyoike and Okech, (1999) in their study found that for the large consumers with their own bulk storage facilities had substantial bargaining power, however, the pricing structure, is geared to taking advantage of low investment costs in the storage facilities. Oil companies in their tender prices offer marginal cost related pricing which aims at achieving high trading volumes at low unit prices. The unit prices cover small mark-ups above import parity and through such pricing principles some companies manage to make reasonable returns on their assets, while at the same time offering very attractive prices to large scale consumers. Any fixed costs not recovered through this pricing structure for bulk consumers are recovered from

the retail pump level consumers, where there seems to be very little or no competition (Nyoike and Okech, 1999). This latter contention by Nyoike and Okech is however contestable given the recent proliferation of independent retail stations which currently pose serious competition to the majors at retail level.

Abeka (1999) found that industry players were responding to customers' demands. Firms were found to have become more innovative and sought new ways of approaching the changed environment. They used strategies such as improved customer service, credit facility, fuel cards and provision of convenience goods and services.

2.3.3 Threat of substitute products

All firms in an industry are competing, in a broad sense, with industries producing substitute products. Substitutes limit the potential return of an industry by placing a ceiling on the prices firms in the industry can profitably charge. The more attractive the price performance alternative offered by substitutes, the firmer the lid on industry profits. Identifying substitute product is a matter of searching for other products that can perform the same function as the product of the industry.

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

In this case then, Wood and Charcoal are the substitute products for domestic fuel needs.

2.3.4 Intensity of rivalry among existing competitors

Rivalry among existing competitors takes the various forms of jockeying for position using tactics like price competition, advertising battles, product introduction, and increased customer service either feel the pressure or see the opportunity to improve their position. The factors that determine the intensity of competitive rivalry can and do change. A very common example is the change in industry growth brought about by industry maturity. As an industry matures its growth rate declines, resulting in intensified rivalry, declining profits, and (often) a shake-out (Porter, 1980).

In 1986, before the liberalisation and because of the price control, the petroleum marketers could not invest in retail stations in the more inaccessible parts of the country since they would not be allowed to factor in the additional costs into the prices. Most of the service and product distribution points were situated in the principal urban areas of Kenya.

The direct result of the relative scarcity of products on one side and the inaccessibility to rural populations of Kenya on the other was the rise of the black market for petroleum products, (Institute of Economic Affairs, 2001).

Nyoike and Okech, (1999), opine that if it were possible for more local entrepreneurs to enter the petroleum marketing and retailing sector, it could, on one hand, counteract oligopolistic behaviour by the established corporations and lead to genuinely competitive prices; and, on the other, contribute substantially to expanding the retailing network into small towns and rural areas. In this regard the government is full of good intentions, promoting the idea of new entrants and making it clear that it is prepared to issue

licenses. The investment and operational barriers to entry that face all but the most well-endowed and well-connected entrepreneurs, however are formidable.

The restrictive trade practices, Monopolies and Price Control Act, CAP 504 of the laws of Kenya, vests the government with the mandate to encourage competition in the entire economy by prohibiting restrictive trade practices. The Act has many enabling sections which can apply also in promoting competition in the petroleum sub-sector (Nyoike and Okech, 1999). They thought that the current scenario is not expected to change before the year 2000, since it takes time to develop the retailing infrastructure required to make the market more competitive, Wamathu (1999), also found that major moves by the existing rival companies and entry of new competitors is a critical factor in defining the competitive posture. Differentiation was also noted to be setting in especially on lubricants and chemicals (Wamathu, 1999).

Aosa (1992), concluded that the fact that companies strive to maintain an edge over their competitors was an indication of the desires of the companies to survive. Aosa further held that as complexity increased, these companies reacted differently to maintain their competitive edge.

2.3.5 The Threat of New entrants

New entrants to an industry bring new capacity, the desire to gain market share, and often-substantial resources. The threat of entry into an industry depends on the barriers to entry that are present, coupled with the reaction from existing competitors that the entrant

can expect. If barriers are high then the new comers can expect sharp retaliation from entrenched competitors, (Porter, 1980).

Njuguna (1986), found that the number of new entrants into the industry seemed not to be a threat to the majors as long as there was a level playing field. The only fear is if they come in and do their business illegally. This is corroborated by the findings by Wairachu (2000), who notes that companies found themselves in an uneven playing ground due to the activities of new entrants in the industry. These new entrants are flouting the industry's rules and regulations through product adulteration and construction of sub-standard filling station. Bett (1995), found that external interference especially unfair treatment by government agencies to the established Dairy marketing firms.

Owiye, (1999) in his study on why Kenyan sugar firms are failing to compete effectively within the liberalised trading environment also found that unfair competition exists as new entrants traded in imported sugar, which is not taxed.

Writing on the future competition Hamel and Praharad (1994) paused therefore, is senior management fully alert to the dangers posed by new unconventional rivals? Are potential threats to the current business model widely understood? This corroborates with the situation pertaining in the Kenyan petroleum sector in which environment is likely to become more competitive with the lowering of barriers to entry.

According to Nyoike and Okech, (1999), this is supported by the conventional economic theory which stipulates that an otherwise non-competitive market protected by high barriers to entry becomes more competitive as such barriers are lowered and new entrants join the market. But more important is the empirical evidence which shows that with the

liberalisation of oil prices and to some extent of supply, 48 new firms were licensed by 1997. The Government's decision to address the issues relating to the lowering of barriers has encouraged new firms which are now entering the market.

Njuguna, (1996), found that deregulation meant the relaxation and elimination of governmental controls over the industry. Lack of new and clear policy guidelines to govern the industry's operations in a deregulated environment, was cited as a major issue that remained unresolved. In the light of the prevailing uncertainty, new entrants would take advantage and penetrate the market unfairly. As aptly put by Theodore (1999), major innovations in automobile fuel marketing are originated by small new oil companies that are not primarily preoccupied with production or refining. This is the situation which is pertaining in Kenya.

Nyoike and Okech, (1999), further reiterate that investments in small-scale kerosene retail outlets have been undertaken successfully by the local business community with and without financial assistance from the existing petroleum marketing companies. With new entrants it is felt more vigorous competition will be realised when the proposed truck loading arms are installed at Nairobi. Peters, (1987), thought that strategy is about outflanking competitors with big plays that yield a sustainable advantage. This sustainability could be the acid test for new entrants.

The new entrants have concentrated on certain segments in the market an approach supported by Andrews (1971), who held that the structure of competition, quite apart from the resources of the firm, may suggest that a relatively small firm should seek out a niche of relatively small attraction to the majors, and concentrate its powers on that limited segment of the market.

2.3.5.1 Barriers to entry for new entrants

The seriousness of the threat of entry depends on the barriers present and on the reaction from existing competitors that the entrants can expect, (Pearce and Robinson, 1994). Barriers to entry also affect the existing companies' response to entry. Further, the threat of retaliation by existing companies can become a barrier to entry, (Byars, *et al*, 1996; Johnson and Scholes, 1994).

Hill (1995) observed that successful innovation can revolutionalize industry structure. He went further to state that one of the most common consequences of innovation has been to lower fixed costs of production, thereby reducing barriers to entry and allowing new, and smaller, enterprises to compete with large established organisations. Hamel and Praharad (1994), rhetorically pause: have the leaders tended to rely on high barriers to entry rather than products and process innovation to protect their profitability? This has a bearing on the situation pertaining in the Kenyan oil industry where the dominance of the majors has been sustained via stiff barriers to entry.

There are six major sources of barriers to entry as enumerated by Porter (1980), Byars et al, (1986), Johnson & Scholes (1994).

These include;

(i) Economies of scale. Economies of scale refer to declines in unit costs of a product (or operation or function that goes into producing a product) as the absolute volume per period increases. Economies of scale deter entry by forcing the entrant to come in at

large scale and risk strong reaction from existing firms or come in at a small scale and accept a cost disadvantage, both undesirable.

(ii) Switching costs. A barrier to entry is created by the presence of switching costs, that is one-time costs facing the buyer of switching from one supplier's product to another's.

(iii) Access to distribution channels: A barrier to entry can be created by the new entrant's need to secure distribution for its product. To the extent that logical distribution channels for the product have already been established, the new firms must persuade the channels to accept its product through price breaks, co-operative advertising allowances, and the like, which reduce profits.

(iv) Cost disadvantages independent of scale: Established firms may have cost advantages not replicable by potential entrant no matter what their size and attendant economies of scale.

(v) Government policy: Government can limit or even foreclose entry into industries with such controls as licensing requirements and limited access to raw materials.

(vi) The entry deterring price: The condition of entry in an industry can be barred using entry deterring price: the prevailing structure of prices (and related terms such as product quality and service) which just balanced the potential rewards from entry (forecast by the potential entrant) with expected costs of over coming structural entry barriers and risking retaliation. If the current price level is higher than the entry-deterring price, entrants' will forecast above-average profits from entry, and entry will occur. Of course the entry-deterring price depend on entrant expectations of the future and not just current conditions.

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The Institute of Economic Affairs (2001), found that the petroleum industry has enormous barriers to entry on account of the heavy capital and infrastructural investments required for start-ups. New entrants often have to establish not only the infrastructure but also arrange for their own procurement without the expectation of assistance from their more established competitors. New entrants have also to tackle the equally important issue of storage and loading facilities for their operations.

On barriers to market entry, Nyoike and Okech,, (1999) found that the Kenyan petroleum sector is characterised by a number of barriers which tend to restrain free entry into the market. One of the most critical barriers arises from the capital-intensive nature of investment in the sector. The well established firms can create supplementary barriers, realising very well that they are protected by this inherent restraint which, because of their long existence in the sector, they have managed to overcome.

Nyoike and Okech, (1999), in their study further established that the government was already undertaking some initiatives to address these barriers. For instance, it has rejected the demands that new entrants process crude oil at Kenya Petroleum Refineries Limited and contribute 4 per cent of the Kenya Pipeline Company (KPC) line fill. The Kenya Pipeline Company is also envisaging putting up additional imported fuel products storage facilities as well as import handling capacity at Mombasa, and loading arms for road tankers at the Nairobi terminal. Thus, with the commissioning of these Kenya Pipeline Company-owned facilities, new players will be in a position to import and sell products, as product loading facilities for road tankers already exist in the Kenya Pipeline Company's western Kenya terminals of Nakuru, Eldoret and Kisumu. Furthermore,

Nyoike and Okech, (1999) have indicated that the current government's liberal licensing policy towards new petroleum trading firms is one way of addressing the issue of the barriers existing in the petroleum market. They report that 'to break the oligopoly in the petroleum sub-sector in Kenya, the Government has licensed more than twenty new companies which, being mostly small indigenous firms, have been exempted from certain conditions including the requirement to process a proportion of their fuel at the Kenya Petroleum Refinery, and the pipeline fill requirement entailing huge working capital which were acting as barriers to new entrants.

The vertical and horizontal integration of the industry also translate into initial barriers to entry faced by new entrants. Other barriers to entry are merely behavioural and relate to the unique relationship between the firms that operate within the market such as the fact that the major oil firms in Kenya are co-owners of the refinery together with government. This relationship may be a barrier to entry because new entrants who wish to make use of the facility would have to negotiate terms with real competitors in the market place.

The firms with the widest distribution outlets for retail necessarily exert the greatest market influence as well. Recalling that the construction of the retail facilities present the formidable barriers to entry at the initial stages, the market majors come to wield considerable market power.

Due to the near consensus that the petroleum sub-sector in Kenya faces grave problems on account of dumping and diversion of products meant for export, product adulteration and improperly constructed service stations, the proposed Petroleum Bill, 2000 has provisions for establishing the office of petroleum inspectors (Institute of Economic Affairs, 2001). However, Hamel and Praharad (1994) paused whether regulatory issues

preoccupy top managers across the industry? (i.e. do managers blame industry problems on regulators rather than search for creative solutions?). This would appear to be the drive behind the oil companies support of the Petroleum Bill, 2000.

Wairachu (2000), found that as a result of the unfair playing ground in the petroleum industry, most firms have joined the Petroleum Institute of East Africa (PIEA) which they hope to actively use to lobby for government enforcement of the health, safety and environment standards. The Institute of Economic Affairs (2001), contends that the legislature and the policy makers must address themselves to the question of standards. It is important to realise that the greatest challenge facing the industry is to ensure compliance with the law for all the market players and this presupposes a competitive market. The regulatory authority will need to act decisively in this respect only if supported by the appropriate legislation. Issues such as industry standards for retail and other outlets should be objectively set so that they do not un-necessary become other barriers to entry into the market.

CHAPTER THREE:

RESEARCH METHOD

This chapter presents the research design that was used to meet the objectives of the study as set out in chapter one. Included here are the type of survey, population of interest, data collection and analysis techniques.

3.1 Research design

Since the number of companies involved in the study was small, this study used a census survey of the descriptive type. Cooper and Emory (1985) contend that surveys are more efficient and economical than observations.

3.2 Population of Study

The population of interest in this study consisted of all the five major oil companies in Kenya which were in operation before the liberalisation of the oil industry and are still in the market (see Appendix III).

The research was carried out in Nairobi where all the companies have their head offices with adequate data and information required for this study. Njuguna (1996), Wamathu, (1999), Wairachu (2000), Abeka (1999) who have all studied different aspects of the oil industry in Kenya used the six oil companies (the number has since reduced to five following the acquisition of Agip by Shell and BP in October, 2000).

3.3 Data Collection

A survey format was found to be more appropriate in this study. The study used primary data collected using a questionnaire containing both close-ended and open-ended questions. The close-ended questions were put on a Likert scale which required the respondents to rate the objects being investigated. Additionally, open ended questions were used to explain responses to some of the close-ended questions.

The questionnaire consisted of four sections namely:

Section 1: The firms' characteristics

Section 2: Covered the existing or potential threats of new entrants

Section 3: Focussed on the strategic responses that the oil companies have adopted.

Section 4: Probed the perceived future threats and challenges posed by new entrants.

Personal interviews with marketing managers or managing directors for each company surveyed were used to collect the data. Parasuraman (1986), contends that personal interviews have the potential of yielding the highest quality of data compared to other modes because supplementary information may be collected in the course of the interview. This concurs with Cooper and Emory (1985), who state that the greatest value of personal interviews lies in the depth and detail of information that can be secured.

3.4 Data Analysis and Interpretation

Data analysis sought to establish the strategic responses that the Major Oil Companies in Kenya have used to counter the competitive force of new entrants. Before processing the

data gathered, the completed questionnaires were edited to ensure consistency across respondents and to locate omissions.

Descriptive statistics were used to present the findings.

Frequency tables for arraying data and percentages were used for relative comparisons.

The Mean and Proportions are also used to analyse, interpret and present the findings.

Mean scores were calculated from the responses which were rated on a 5-point Likert scale. The scale had taken 1 as the lowest level of response (less important) and 5 was taken as the highest level of response (critically important).

The scores were calculated as follows:

$$\mu = \frac{\text{Sum of} \sum_{i=1}^{n} x}{n}$$

Where:

μ = Mean Score

x = Score per question

n = Total number of companies

Absolute scores were then computed as follows:

$$\text{Sum of} \sum_{i=1}^{n} x = \text{Absolute score}$$

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter contains data analysis and the research findings.

The data was collected from the five major companies namely: Shell and BP, Caltex, Total, Mobil and Kenol / Kobil which were all in operation before the advent of the new entrants into the oil industry. The data collected was analysed using descriptive statistics in the form of Frequency distributions, Proportions, Percentages, Means and Standard Deviations.

4.2 Firm characteristics

This section sought to establish the basic firm characteristics. We sought to establish when the five major companies were established, the level of competition and the importance of the company objectives. The findings are presented in tables 4.2.1, 4.2.2 and 4.2.3 below.

Table 4.2.1: Year of Establishment of the Major Oil Companies.

PERIOD OF ESTABLISHMENT	1900 - 1920	1921 - 1940	1941 - 1960	1961- 1980	1981 - 2000
NO. OF FIRMS	1	3	1	0	0

From Table 4.2.1 above, all the five major oil companies studied indicated that they were established in Kenya before 1994 when the oil industry was liberalised.

We then sought to find out the nature of ownership of the major oil companies.

Table: 4.2.2: Nature of ownership of the major oil companies

Ownership:	Multinational	Local
No. of firms	4	1

From table 4.2.2 above, we note that 4 of the 5 major oil companies are multinationals with only 1 firm being a local company. This shows the high level of influence of the multinational oil companies in the Kenyan oil industry.

Table: 4.2.3: Level of Competition

Level of Competition	Number of Firms
Very High	5 [100%]
Moderate	0
Low	0

From the Table 4.2.3 above, all the five major firms studied representing 100% indicated that they were facing very high competition. The competition emanated not only from the rivalry among the majors themselves but also from the emerging new entrants.

We then sought to establish the extent of importance of a number of business objectives shown on the table below.

Table 4.2.4: Extent of Importance of business Objectives.

	Frequency of mention of importance of objectives					Absolute Scores		
Objective	Very great	Great	Moderate	Less	Least	Absolute Score	Mean	Std. Deviation
Profitability	3 [60%]	2 [40%]				23	4.6	0.548
Market share Leadership	1 [20%]	2 [40%]	1 [20%]	1 [20%]		18	3.8	1.140
Technological Advancement	3 [60%]	2 [40%]				23	4.6	0.548
Customer Satisfaction	3 [60%]	2 [40%]				23	4.6	0.548
Staff Training	3 [60%]	1 [20%]	1 [20%]			22	4.4	0.894
Competitive Position	3 [60%]	1 [20%]	1 [20%]			22	4.4	0.894
Survival	2 [40%]	1 [20%]	1 [20%]		1 [20%]	17	3.4	1.817
Increasing Shareholder Value	5 [100%]					25	5.0	0.000

From Tables 4.2.4 above, it is clear that all the five major oil companies representing 100%, indicated that it was important to increase shareholder value. The other factors which were rated as being very important by 3 out of the 5 representing 60% of the major companies surveyed include: Profitability, technological advancement, customer satisfaction, staff training, and a strong competitive position. This contrasts with only 2

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out of 5 representing 40% of the firms studied indicating that they considered survival to be least important in their strategic decisions.

4.3 The Threat on New Entrants

This section sought to establish the existing or perceived threats of new entrants. It's objective was to find out the various manifestations of the threat of the new entrants into the oil industry. It covers the various strategies being used to penetrate the Kenyan oil industry which had hitherto been dominated by the major oil companies.

These potential threats of the threat new entrants is what the major oil companies are continually attempting to strategically respond to. The findings of the various threats are presented below.

Table 4.3.1: Problems Posed by The New Entrants.

Problem	Frequency of mention of Extent of Problem					Absolute Scores		
	Critical	Moderate	Neither/nor	Less	Least	Absolute Score	Mean	Std. Deviation
Price Wars	3 [60%]	2 [40%]				23	4.6	0.548
Price Discounts	2 [40%]	1 [20%]	2 [40%]			20	4.0	1.000
Product Adulteration	4 [80%]	1 [20%]				24	4.8	0.447
Duty Evasion	2 [40%]	3 [60%]				22	4.4	0.548
Market Share erosion		1 [20%]	2 [40%]	1 [20%]	1 [20%]	12	2.6	1.140
Loss of Customers			1 [20%]	1 [20%]	3 [60%]	13	2.6	0.894
Dumping of Products	3 [60%]	2 [40%]				23	4.6	0.548
Importation of Cheap Products	2 [40%]	2 [40%]	1 [20%]			21	4.2	0.837
Substandard Filling Station	4 [80%]		1 [20%]			24	4.8	0.447
Substandard Storage	1 [20%]	2 [40%]	2 [40%]			19	3.8	0.837
Conversion of majors' Dealers			1 [20%]	3 [60%]	1 [20%]	10	2.0	0.707
Low Cost Operations	1 [20%]	1 [20%]	3 [60%]			18	3.6	0.894
Hospitality with other Majors			1 [20%]	4 [80%]		11	2.2	0.447
Collaborations			3 [60%]	1 [20%]	1 [20%]	9	2.4	0.894

From Table 4.3.1 above, we established that the Major oil companies comprising 4 out of 5 representing 80% of the firms surveyed considered product adulteration and substandard filling stations to be the most critical threats posed by the new entrants in the industry.

The other factors thought to be moderate as indicated by 3 out of the 5 firms studied representing 60% include; price wars, evasion of duty and dumping of products.

On the other hand, erosion of market share, loss of customers, hospitality with majors and collaborations were found to be least threats with only 1 out of 5 representing 20% of the firms confirming the same.

We also sought to establish the perceived influence of other forces on the threat of new entry into the Kenyan oil industry. A study by Aosa (1992) found that Government, Logistics and Power Play are forces that impact on the competitive environment in Kenya in addition to Porter's Five Forces.

Table 4.3.2: The Influence of Other Forces on the Competitive environment.

	Frequency of mention of the Extent of Influence of other forces					Absolute Scores		
Force	Very Great	Great	Moderate	Less	Least	Absolute Score	Mean	Std. Deviation
Government	2 [40%]	1 [20%]	1 [20%]		1 [20%]	18	3.6	1.673
Logistics	2 [40%]	1 [20%]	1 [20%]	1 [20%]		19	3.8	1.304
Power Play	1 [20%]		2 [40%]	1 [20%]	1 [20%]	14	2.8	1.483

From Tables 4.3.2 above, it emerged that the influence of Logistics and Government on the competitive nature of the oil industry in Kenya was very strong as indicated by 40% of the respondents who thought that the two factors influenced the level of competition to a great extent. Power play was however found to be of relatively minimal significance.

Table 4.3.3: Impact of New Entrants on the Business of the Major Firms.

	Frequency of mention					Absolute Score		
Factor	Very Great	Great	Moderate	Less	Least	Absolute Score	Mean	Std. Deviation
Market Share Loss	1 [20%]	1 [20%]	1 [20%]	2 [40%]		16	3.2	1.304
Loss of Customers	1 [20%]	1 [20%]	1 [20%]	2 [40%]		16	3.2	1.304
Decline in Profits	2 [40%]	2 [40%]	1 [20%]			21	4.2	0.837
Decline in Safety Standards	1 [20%]	2 [40%]	1 [20%]	1 [20%]		18	3.6	1.140
Loss of dealers		2 [40%]	1 [20%]	1 [20%]	1 [20%]	14	2.8	1.304

From Table 4.3.3 above, we established that the parameter most affecting the major oil companies was the decline in profits as indicated by 2 out of 5 representing 40% of the firms surveyed. On the other hand, the companies confirmed that loss of market share, loss of customers and decline in safety standards had not been adversely affected within the companies studied.

4.4 Strategic Responses by the Major Oil Companies to the Threat of New Entrants

In this section we sought to establish the strategic changes which have been initiated by the major oil companies in response to the threat of new entrants. We start by ascertaining the various corporate changes that the major oil companies have initiated.

Table 4.4.1: Strategic Responses by the Major Oil Companies to the Threat of New Entrants.

Response (changes in objectives)	Yes	No
Change in Corporate Mission	1 [20%]	4 [80%]
Change in Products or Services offered	4 [80%]	1 [20%]
Change in Market Segments served	4 [80%]	1 [20%]
Change in Technology	4 [80%]	1 [20%]
Change in structure	3 [60%]	2 [40%]
Change in Staffing	3 [60%]	2 [40%]
Change in planning	3 [60%]	2 [40%]

From Table 4.4.1 above, it is noted that 4 out of the 5 firms representing 80% of the firms studied confirmed to have made changes in the products and services offered, the market segments served and in the technology they used. 3 out of the 5 representing 60% of the firms studied indicated that they have made changes in their structures, staffing levels and corporate planning. On further probing, it was established that 3 out of the 5 major oil companies had regionalised their operations with a view to optimising efficiency and achieving long-term effectiveness. Only 1 out of the 5 representing 20% of the major oil companies confirmed to have changed its corporate mission in response to the threat of new entrants. On further probing it was established that this company with a new mission statement had acquired a local new entrant in addition to expanding its operations to neighbouring countries where it was previously un-represented.

Table 4.4.2: Importance of Strategic Options For Responding to the Threats Posed by New Entrants.

	Frequency of Mention					Absolute Score		
Strategic Option	Critical	Moderate	Neither/ Nor	Less	Least	Absolute Score	Mean	Std. Deviation
Cost Leadership	4 [80%]	1 [20%]				24	4.8	0.447
Differentiation	3 [60%]	2 [40%]				23	4.6	0.548
Market Focus	4 [80%]	1 [20%]				24	4.8	0.447
Market Penetration	2 [40%]	2 [40%]	1 [20%]			21	4.2	0.837
Market Development	1 [20%]	2 [40%]	1 [20%]			18	4.5	0.577
Product Development	2 [40%]	2 [40%]	1 [20%]			21	4.2	0.837
Diversification	1 [20%]	2 [40%]	1 [20%]		1 [20%]	15	3.75	1.893
Acquisitions	2 [40%]	2 [40%]		1 [20%]		20	4.0	1.225
Joint Venture	1 [20%]	2 [40%]			2 [40%]	13	3.0	1.871

As shown in table 4.4.2 above, 4 out of the 5 major companies representing 80% of the firms surveyed indicated that they used Cost Leadership and Market focus to respond to the threats of new entrants. 3 out of 5 of the companies representing 60% indicated Differentiation as their preferred strategy for responding to the threat of new entrants. On further probing differentiation was found to be used mainly in Lubricants and Packed Liquefied Petroleum Gas (LPG) where the major companies have come up with new brands. The Grand Strategies of Mergers, Acquisitions, Diversification, and Joint Ventures were found to be least Important in responding to the threat of new entry. On further probing, however, it was established that a number of the firms had recently had mergers and acquisitions precipitated by mainly international initiatives.

Findings on other company initiated responses are as shown in the table below;

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Table 4.4.3: Importance of Company-Initiated Strategic Changes in Response to Changes in the Competitive Environment.

	Frequency of Mention					Absolute Score		
Strategic Change	Critical	Moderate	Neither/ Nor	Less	Least	Absolute Score	Mean	Std. Deviation
Cost Leadership:								
Technology	2 [40%]	3 [60%]				22	4.4	0.548
Cost Cutting	4 [80%]	1 [20%]				24	4.8	0.447
Retrenchments		2 [40%]	2 [40%]			14	3.5	0.577
Rationalisation	4 [80%]	1 [20%]				24	4.8	0.447
Business Process Re-engineering	1 [20%]	4 [80%]				21	4.2	0.447
Retrenchments		4 [80%]	1 [20%]			19	3.8	0.447
Automation	1 [20%]	1 [20%]	3 [60%]			18	3.6	0.894
Differentiation:								
Customer Service	5 [100%]					25	5.0	0.000
Product Information	1 [20%]	4 [80%]				21	4.2	0.447
Training	1 [20%]	3 [60%]	1 [20%]			21	4.0	0.707
New Product Development	3 [60%]	1 [20%]		1 [20%]		21	4.2	1.304
Increased Advertising -		3 [60%]	2 [40%]			18	3.6	0.548
Positioning	3 [60%]	1 [20%]	1 [20%]			22	4.4	0.894
Branding	2 [40%]	3 [60%]				22	4.4	0.548
More Strategic Locations	2 [40%]	3 [60%]				22	4.4	0.548
Focus:								
Market Focussing	4 [80%]	1 [20%]				23	4.6	0.894
Segmentation	3 [60%]	2 [40%]				23	4.6	0.548
Marketing Initiatives:								
Customer needs Identification	3 [60%]	2 [40%]				23	4.6	0.548
Reduction in Complaints	3 [60%]	1 [20%]	1 [20%]			22	4.4	0.894
Price Discounts	1 [20%]	2 [40%]	1 [20%]	1 [20%]		18	3.6	1.140
Matching competitors prices	3 [60%]	1 [40%]				23	4.6	0.548
More outlets	1 [20%]	2 [40%]	1 [20%]	1 [20%]		18	3.6	1.140
Relationship Marketing		5 [100%]				20	4.0	0.000
Market Development	3 [60%]	1 [20%]	1 [20%]			22	4.4	0.894
Other Strategies:								
Strategic Alliances	1 [20%]	2 [40%]		1 [20%]	1 [20%]	16	3.2	1.643

From Table 4.4.3 above, it can be noted that 5 out of the 5, representing 100% of the firms surveyed indicated that customer service was a critical factor in their attempt to strategically respond to the perceived threats of the new entrants. This was followed by 4 out of 5 representing 80%, indicating that Cost Cutting, rationalisation and Market Focus were critically important. 60% of the major oil companies confirmed that New Product Development, Positioning, Segmentation, reduction in complaints, matching competitor's prices and market development were critically important for their successful response to the new entrants. The Technology used, branding and more strategic locations were the other important strategic changes that the Major Oil Companies had used in response to the threat of new entrants as indicated by 40% of the companies.

On the other hand, Retrenchments, Strategic Alliances, price discounts, increased advertising spend, increased number of outlets, staff retrenchments and automation in operations were found to be the least important strategic changes initiated in response to the threat of the new entrants.

Table 4.4.4: Other Strategies Being Used to Counter the Threat of New Entrants.

Other Strategies	Yes	No
Lobbying	4 [80%]	1 [20%]
Fronting for new legislation	5 [100%]	0 [0%]
Public Relations	4 [80%]	1 [20%]
Divestiture	1 [20%]	4 [80%]

Table 4.4.4 above summarises the use of other strategies to counter the threat of new entry. Five companies, representing 100% indicated that they were fronting for new legislation governing the industry. On further probing it was established that the major oil companies will want to see a more strict enforcement of operating and storage standards for petroleum products. Four out of Five companies representing 80%, confirmed that they were lobbying and using public relations to counter the threat of new entrants.

4.5 Future challenges

A number of perceived threats were identified as likely to face the major oil companies into the future. The identified challenges include: public Health, Safety and Environment and other general standard requirements. The likelihood of "watered down standards" of petroleum storage and dispensing, was seen as arising mainly from the new entrants, this was exasperated by the fact that the enforcement of the adherence to the set standards had not been adequately done by the relevant authorities. It was felt that these issues are likely to continue disadvantaging the majors as they come with high costs, making the majors high cost operators and less competitive.

Other potential threats identified include the possibility of the new entrants not conforming to laid down laws and procedures. It was felt that in order to safeguard safety standards, "there needs to be a clear legislation with a clear set of rules to abide by".

The other likely challenges identified include: low cost operations, corruption, and the long-term viability of Kenya Petroleum Refineries Ltd which was seen to uncertain

because of its lack of cost competitiveness especially since the new entrants were not necessarily processing crude petroleum at the Refinery.

The possibility of the new entrants forming a coalition to import petroleum products directly from the producers was yet the other potential threat identified especially from recent statements of intent made by the new entrants.

A number of propositions were made regarding the strategies that the major oil companies were likely to use into the future. They included: focus on customer service and new product development, increased diversification, a lobby for legislation that would ensure a level playing field, intensification of Public Relations campaigns on the benefits of maintaining high industry standards and that the majors may opt to use their size and integration advantages to fight the new entrants. One of the respondents felt that "the majors will have to be innovative in order to attract and retain customers and that they must take the war away from pricing." As Michael Porter once put it, cutting prices is insanity if the competition can go as low as you can.

CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Discussion

In this section, we discuss the main findings, draw conclusions and make recommendations emanating from the research findings covered in the previous chapter.

The first objective of the study was to investigate the strategic responses used by major oil companies to counter the threat of the new entrants into the industry. We will start by discussing the findings on the competitive environment and then discuss the threats posed by the new entrants.

In this respect, the study showed that all the five oil companies had used some strategic responses in order to counter the threat of the new entrants. As Porter (1980) aptly puts it, the essence of formulating competitive strategy is relating a company to its environment. The best strategy for a given firm is ultimately a unique construction reflecting its particular circumstances, (Thompson and Strickland, 1990).

We established that the Kenyan oil industry is very competitive. Similar findings were also made by Murage (2000) who studied the strategies used by the Independent Petroleum Dealers in Kenya into the oil industry. Bett, (1995) made similar findings in his study of the strategic marketing of Dairy Products in Kenya. He established that the existing players were facing intense competition as a result of liberalisation. Similar findings were also made by (Wairachu 2000; Wamathu 1999).

We also established that majority of the major oil companies have not changed their mission statements. Collins and Porras, (1996) in their study on building company vision observed that companies that enjoy enduring success have core values and a core purpose that remain fixed while their business strategies and practices endlessly adapt to a changing world. This seems to be what the major oil companies in Kenya have done.

Regarding the threats posed by the new entrants, we established that the Major oil companies considered product adulteration and substandard filling stations to be the most critical threats posed by the new entrants into the industry. The other factors thought to be moderately critical include; price wars, evasion of duty and dumping of products. On the other hand, erosion of market share, loss of customers, hospitality with majors and collaborations were found to be least threats.

Regarding the perceived influence of other forces on the threat of new entry into the Kenyan oil industry, we found that the influence of Logistics and Government was very strong. This is supported by Aosa (1992) who found that Government, Logistics and Power Play were forces that impacted on the competitive environment in Kenya in addition to Porter's Five Forces. Similar findings have also been made by Bett, (1995) regarding the difficulties facing the Dairy industry.

We also established that the key parameter most affecting the major oil companies as a result of the new entrants was the decline in profits. The companies indicated that loss of market share, loss of customers and decline in safety standards had not been adversely affected within the companies studied.

We now discuss our findings as regards the first objective of the strategic responses to the threat of new entry.

The major oil companies identified Cost Leadership as a critical factor to their continued competitiveness. This is confirmed by the firms studied indicating that they used a number of cost reduction strategies including: cost cutting and rationalisation. Most major oil companies were found to have rationalised their operations in an attempt to be competitive and responsive. A number intra-company collaborative arrangements were noted in the operations areas such as the use of a joint depot by three of the five major companies in Nairobi. This finding ties with Abeka (1996), who found that most companies were undergoing internal re-organisations in such as a way that they were becoming thinner and flatter and therefore more focussed on the customer. This was seen as a direct response to the new entrants' strategy of keeping their overhead costs lower than their competitors as established by (Murage, 2000). Kombo (1997) also found that the motor franchise firms used purchase criteria of buying from the cheapest source in order to be cost competitive. This finding can also be corroborated with the findings by Stalk *et al.* (1996), who looked at a number of industries and observed that today, industry after industry, companies are innovating the management of their value chain in ways that are more rewarding for consumers.

All the major oil companies indicated that they had made changes in the technology used, this was aimed at achieving efficiency in their operations. Similar findings were made by Kombo (1997), who found that the motor franchise firms had significantly improved their technology. This finding was similarly obtained by Wamathu (1999) when he sought to

establish the bases for competitive advantage in the oil industry in Kenya. Sheikh (2000) who studied the strategic responses by insurance companies following liberalisation also found that the companies effected the greatest change in the technology area.

Differentiation through the services and products offered was also found to be a major response factor. The major oil companies had endeavoured to improve on their customer service by identifying customer needs and reducing customer complaints. Similar findings were made by Abeka (1996), who found that the major oil companies were becoming more flexible and capable of quick response to any situation in the market and therefore more focussed on the customer. The companies were striving to meet customer expectations through improvement of the products and services offered.

Branding was also found to have been used to create differentiation and add value to the businesses. The major oil companies used their brands equity to try to gain customer loyalty. Similar findings were made by both Abeka (1996), Kombo (1997), Wairachu (2000), all found that firms had significantly increased advertising expenditure to create brand awareness to potential customers. This however contrasts sharply with Murage (2000) findings for the new petroleum independent dealers where she established that they encountered significant difficulties in building their brands since they had to commit substantial resources over a long period of time to build brand equity. Wairachu (2000) also found that oil companies were increasingly promoting their brand names in the market.

From the study, we also established that the major oil companies had used product development as a strategic response to the threat of new entrants. We found that the major oil companies had changed the products and services offered. In the course of the study, one of the major oil companies launched a fuel quality tracking service in a bid to guarantee customers the integrity of the product supplied. Wairachu (2000) found that the major oil companies had stepped up the monitoring of the quality of the products in the delivery process. Abeka (1986) found that each major oil company had launched at-least one product or service following liberalisation where each company was trying to innovate to achieve a competitive edge and capture opportunities in the market. Similar findings were made by Kombo (1997), who found the motor vehicle franchise holders had significantly adjusted their product strategies in response to competition.

Customer service including anticipating changes in customer needs, product information, reduction in customer complaints were identified as the other strategies used which is confirmed by the findings by Wairachu (2000), who found that companies had started processing customers orders faster and had drastically reduced delivery lead-time. This is also in line with Kombo (1997) who found that firms increased marketing research expenditure in order to identify customer needs and satisfy them better than competitors. He also established that the quality of services were all adjusted and used as strategic tools for differentiation in the changes made in the marketing mix of the major oil companies. Similar findings were also made by Mohammed (1995), who in his study of the motor industry found that firms had to positively review the quality of services they offered to customers as competition intensified following liberalisation. Wamathu (1999),

found that one of the factors contributing to competitiveness include good product quality.

The other customer related strategic response identified was the use of strategic locations which was identified as an important strategic response in an effort by the major oil companies to counter the threat of new entry. Similar findings were also made by Murage (2000) who found that the new entrants tried to exploit the strategic locations which had been ignored by the major companies.

Regarding market initiatives, the strategic responses found were a change in the market segments served. The companies were found to have identified new market segments in which they were focussing on in order to strengthen their overall market position. Market development was also identified as the other important strategic response. This is similar to Kombo (1997), who established that the motor franchise firms considerably increased their initiative to seek new domestic markets.

Market Focus and Market Penetration were also identified as some of the strategies used to counter the threat of new entrants. Mohammed (1995), found that the franchisees and subsidiary motor vehicle companies used a combination of marketing strategies in their effort to compete with the dealers of imported reconditioned motor vehicles, this supports the findings in this study.

Regarding pricing strategy, matching competitors prices was mostly used in response to the threat of new entrants this agrees with Aaker (1996) who contends that industry after industry, price competition is at the centre stage and that there are enormous pressures on nearly all firms to engage in price competition. Sheikh (2000) also found that insurance

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companies had reduced premiums in order to match competitors. Murage (2000) research findings where she established that the new entrants into the Kenyan oil industry used lower prices to penetrate the market corroborates with the findings in this study.

Other strategies found to have been used include lobbying, fronting for new legislation and public relations particularly in the enforcement of health safety and environment standards to which the majors have no problem adhering to. Mohammed (1995), made strikingly similar findings in which he established that the motor vehicle franchise holders used a strategy which involved the enhancement and exploitation of their existing relative strengths such as high standards and competitive advantages vis a vis their rivals in order to strengthen their positions.

Regarding objective two in which we sought to look at the future challenges and the strategies the major oil companies will use in response, a number of perceived threats were identified, these include: public Health, Safety and Environment and other general standard requirements. It was felt that these issues are likely to continue disadvantaging the majors as they come with high costs, making the majors high cost operators and less competitive. The other factors identified included the long-term viability of Kenya Petroleum Refineries Ltd, the likelihood of "watered down standards" of petroleum storage and dispensing and the possibility of the new entrants not conforming to laid down laws and procedures.

In response to the potential threats, a number of propositions on the strategies that the major oil companies were likely to use into the future were ascertained from the study.

They included: focus on customer service and increased new product development, and diversification. Wahome (2001) opined that as fortunes in the oil sector begin to dwindle, diversification by firms from the core business of fuel handling was increasingly being seen as a cushion. Other strategies used by the major oil companies include a lobby for legislation that would ensure a level playing field, intensification of Public Relations campaigns on the benefits of maintaining high industry standards and the strategic option for the majors to leverage on their size and integration advantage to counter the new entrants.

O'Keeffe (2001) writing on "business beyond the box" urges companies to get addicted to picturing step-change and be intensely dissatisfied with being happy doing a little bit better. He asserts that staying comfortably in the box of incrementalism will lead to failure. The rate of change offers opportunities for the emerging competition to exploit if the existing companies fail to do it themselves. He intimates that organisations get stuck in the box of incrementalism because of the fear of upsetting an operation that has worked well in the past, even though the situations of the past will not be repeated in the future. He urges organisations to focus on the transformation that is possible for the future and then take action to make it happen. From our findings in this research, it emerges that the major oil companies will need to "think beyond the box" and respond with appropriate strategic changes in order to surmount the competitive threat of the new entrants.

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5.2 Conclusions

The study reveals the major oil companies have made a number of responses to the threat of new entry into the industry. The study reveals that the level of competition in the industry is very high. We also established that majority of the major companies in responding to the threat of new entry changed products and services offered, the market segment served and had also effected a change in technology. For instance the use of convenient stores and restaurant franchises in up-market areas as one of the competitive strategies the major oil companies are using to compete against the new entrants.

In responding to the changes, the major oil companies used a combination of generic strategies including cost leadership, differentiation, market focus, segmentation, penetration and development of new markets.

Attempts were also made by the major companies to improve customer service, reduce customer complaints, anticipate and meet customer needs. The other changes made include; matching competitor prices, branding and use of strategic locations.

The other key finding relates to the major companies use of lobbying for a level playing field, fronting for new legislation governing the importation, transportation, storage, and dispensing of petroleum products and public relations in communicating the major companies concerns and intentions.

5.3 Recommendations

The major oil companies need to respond much more strongly to the emerging threat of new entrants following the liberalisation of the industry. It is apparent from the research findings that despite the broad strategies used, the firms continue to face competitive pressure exerted by the new competitors. It will therefore be necessary for the major oil companies to be innovative particularly in the areas of marketing innovation and product development.

It is evident from the study findings that the companies are relying more on the generic strategies which essentially make them the same.

From studies in other competitive industries, it is clear that the major oil companies will need to be more marketing oriented as opposed to the current situation where they are essentially offering an undifferentiated commodity despite the efforts to do so.

5.4 Limitations of the study

This study had several limitations namely;

i) The study focussed on the threat of new entrants and the major oil companies responses to the same. It is possible that some of the responses would have been due to the other four forces of power of buyers, power of sellers, the threat of substitute products and the competitive rivalry among the existing firms which together make Michael Porter's model of the Five Forces of Competition.

ii) Population size-since the number of the oil companies which were operating before liberalisation were only five following the acquisition of Agip by Shell and BP, the extent of analysis is limited.

5.5 Suggestions for further research

i) A study should be conducted to establish the strategic responses by the oil industry in Kenya to the other four forces which together form the five forces namely; power of buyers, power of sellers, the threat of substitute products and the competitive rivalry among the existing firms. Findings from such a study will compliment the findings in this research.

ii) Given the homogeneity of most of the strategic responses used by the major oil companies in countering the new entrants, a study of possible existence of strategic groups in the Kenyan oil industry should be undertaken. Such a study will shade more light on why the major companies respond in the manner confirmed in this study.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

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FACULTY OF COMMERCE,

P.O BOX 30197

NAIROBI.

Mr. << >>

C/O <<Company>>

P.O Box << >>

Nairobi.

Dear <<Respondent>>

RE: **MBA RESEARCH PROJECT**

As part of the requirement for the degree of Master of Business Administration (MBA), the undersigned who is a student in the Faculty of Commerce, Department of Business Administration is required to undertake a management project paper. He intends to undertake a study among the oil companies in Kenya.

This questionnaire is designed to gather information on the strategic responses to the threat of new entrants into the oil industry. All the information you disclose will be used for this academic exercise and will be treated in strict confidence. Further confidentiality will be ensured via the necessary coding of the survey findings.

Your co-operation will be highly appreciated.

Yours faithfully,

....	....
S. Isaboke	Prof. P. O. K'Obonyo
MBA Student	Supervisor

APPENDIX II: QUESTIONNAIRE

Section One

1. Name of the company……………………………………………………………………..

2. Year when organisation was established in Kenya……………………………………

3. Are you a subsidiary of a multinational [ ] or a local company? [ ]

4. Describe the level of competition your company is facing now (choose one)?

Very high (intensive/hyper)	[ ]
Fairly high (moderate)	[ ]
Low	[ ]

5. Please indicate the extent to which each of the following factors are important to your company (tick as appropriate in the relevant box).

	5 To a very great extent	4 To a great extent	3 To moderate extent	2 To a less extent	1 To least extent
Profitability	[ ]	[ ]	[ ]	[ ]	[ ]
Market share Leadership	[ ]	[ ]	[ ]	[ ]	[ ]
Technological advancement	[ ]	[ ]	[ ]	[ ]	[ ]
Customer Satisfaction	[ ]	[ ]	[ ]	[ ]	[ ]
Staff training	[ ]	[ ]	[ ]	[ ]	[ ]
Competitive position	[ ]	[ ]	[ ]	[ ]	[ ]
Survival	[ ]	[ ]	[ ]	[ ]	[ ]
Increasing shareholder value	[ ]	[ ]	[ ]	[ ]	[ ]

Section Two

6. Listed below are among the potential problems posed by new entrants to your company, please indicate the degree of concern to your company of the problem by ticking below.

	5 Critically a problem	4 Moderately a problem	3 Neither a problem nor not a problem	2 Less important a problem	1 Least of a problem
Price wars	[ ]	[ ]	[ ]	[ ]	[ ]
Discounting	[ ]	[ ]	[ ]	[ ]	[ ]
Product adulteration	[ ]	[ ]	[ ]	[ ]	[ ]
Evasion of duty	[ ]	[ ]	[ ]	[ ]	[ ]
Erosion of market share	[ ]	[ ]	[ ]	[ ]	[ ]
Loss of customers	[ ]	[ ]	[ ]	[ ]	[ ]
Dumping of products	[ ]	[ ]	[ ]	[ ]	[ ]
Importation of cheap products	[ ]	[ ]	[ ]	[ ]	[ ]
Substandard filling stations	[ ]	[ ]	[ ]	[ ]	[ ]
Substandard storage	[ ]	[ ]	[ ]	[ ]	[ ]
Conversion of majors' dealers	[ ]	[ ]	[ ]	[ ]	[ ]
Low cost operations	[ ]	[ ]	[ ]	[ ]	[ ]
Hospitality with other majors'	[ ]	[ ]	[ ]	[ ]	[ ]
Collaborations	[ ]	[ ]	[ ]	[ ]	[ ]

Any other threat(s) (specify) ....

7. To what extent have the following positively influenced the competitive threat that you are facing?

	5	4	3	2	1
	To a very great extent	To a great extent	To moderate extent	To a less extent	To least extent
Government	[ ]	[ ]	[ ]	[ ]	[ ]
Logistics	[ ]	[ ]	[ ]	[ ]	[ ]
Power play	[ ]	[ ]	[ ]	[ ]	[ ]

8. Following the changes in the market, to what extent has your organisation been affected in the following parameters?

	5	4	3	2	1
	To a very great extent	To a great extent	To moderate extent	To a less extent	To least extent
Loss of market share	[ ]	[ ]	[ ]	[ ]	[ ]
Loss of customers	[ ]	[ ]	[ ]	[ ]	[ ]
Decline in profits	[ ]	[ ]	[ ]	[ ]	[ ]
Decline in Safety standards	[ ]	[ ]	[ ]	[ ]	[ ]
Loss of dealers	[ ]	[ ]	[ ]	[ ]	[ ]

Any other effects (please specify) ....

Section Three

9. Has there been a change in each of the following company objectives? (tick as appropriate).

	Yes	No
Corporate mission/vision	[ ]	[ ]
Range of Product/services	[ ]	[ ]
Market Segments served	[ ]	[ ]
Technology	[ ]	[ ]
Structure	[ ]	[ ]
Staffing	[ ]	[ ]
Planning	[ ]	[ ]

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Any other changes (please specify)...

10. How important has each of the following strategic options been to your firm in response to the changes in the market (rank them in order of importance (1 being the least and 5 being the most). (Tick as appropriate).

	5 Critically important	4 Moderately important	3 Neither important nor un-important	2 Less important	1 Least important
Cost Leadership	[ ]	[ ]	[ ]	[ ]	[ ]
Differentiation	[ ]	[ ]	[ ]	[ ]	[ ]
Market focus	[ ]	[ ]	[ ]	[ ]	[ ]
Market penetration	[ ]	[ ]	[ ]	[ ]	[ ]
Market Development	[ ]	[ ]	[ ]	[ ]	[ ]
Product Development	[ ]	[ ]	[ ]	[ ]	[ ]
Diversification	[ ]	[ ]	[ ]	[ ]	[ ]

(please explain type of diversification)..

Merger	[ ]	[ ]	[ ]	[ ]	[ ]

(please explain)...

Joint Venture	[ ]	[ ]	[ ]	[ ]	[ ]

(please explain)...

Acquisitions	[ ]	[ ]	[ ]	[ ]	[ ]

(please explain)...

11. How important are changes in each of the following areas which your company has initiated in response to changes in the competitive environment? (tick as appropriate).

	Critically important	Moderately important	Neither important nor important	Less important	Least important
Cost Leadership:					
Technology	[ ]	[ ]	[ ]	[ ]	[ ]
Cost cutting	[ ]	[ ]	[ ]	[ ]	[ ]
Retrenchments	[ ]	[ ]	[ ]	[ ]	[ ]
Rationalisation	[ ]	[ ]	[ ]	[ ]	[ ]
Business process re-engineering	[ ]	[ ]	[ ]	[ ]	[ ]
Staff Retrenchments	[ ]	[ ]	[ ]	[ ]	[ ]
Automation of operations	[ ]	[ ]	[ ]	[ ]	[ ]
Differentiation:					
Customer service	[ ]	[ ]	[ ]	[ ]	[ ]
Provision of product information	[ ]	[ ]	[ ]	[ ]	[ ]
Training	[ ]	[ ]	[ ]	[ ]	[ ]
New product development	[ ]	[ ]	[ ]	[ ]	[ ]
Increased advertising	[ ]	[ ]	[ ]	[ ]	[ ]
Positioning	[ ]	[ ]	[ ]	[ ]	[ ]
Branding	[ ]	[ ]	[ ]	[ ]	[ ]
More strategic Locations	[ ]	[ ]	[ ]	[ ]	[ ]

Focus:					
Market Focussing	[ ]	[ ]	[ ]	[ ]	[ ]
Segmentation	[ ]	[ ]	[ ]	[ ]	[ ]
Marketing Initiatives:					
Identification of customer needs	[ ]	[ ]	[ ]	[ ]	[ ]
Reduction in customer complaints	[ ]	[ ]	[ ]	[ ]	[ ]
Price discounts	[ ]	[ ]	[ ]	[ ]	[ ]
Matching competitors prices	[ ]	[ ]	[ ]	[ ]	[ ]
More outlets	[ ]	[ ]	[ ]	[ ]	[ ]
Relationship marketing	[ ]	[ ]	[ ]	[ ]	[ ]
Developing new markets	[ ]	[ ]	[ ]	[ ]	[ ]
Other Strategies:					
Strategic Alliances	[ ]	[ ]	[ ]	[ ]	[ ]

12. Could you indicate any other strategic responses you have employed in response to the changes in the oil industry?

	Yes	No	(If yes, please specify)
Lobbying	[ ]	[ ]	(specify)............................
Fronting for new legislation	[ ]	[ ]	(specify)..........................
Public Relations	[ ]	[ ]	(specify)..........................
Influencing public opinion leaders	[ ]	[ ]	(specify).........................
Divestiture	[ ]	[ ]	(specify).........................

Any other strategic responses (please specify)..

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Section Four

13. What are the other perceived or potential threats that new entrants are likely to pose into the future?

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14. What are the other strategies that your company or the industry is likely to use into the future?

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15. What are the likely challenges regarding the threat to new entrants that are likely to face the major oil companies into the future?

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THANK YOU FOR YOUR CO-OPERATION

APPENDIX III: LIST OF MAJOR OIL COMPANIES USED IN THE STUDY

Mobil

Caltex

Total

Shell/BP Kenya

Kenol/Kobil

Source: Ministry of Energy, Government of Kenya