AN ASSESSMENT OF THE PERCEIVED ATTRACTIVENESS OF THE KENYAN MARKET TO INTERNATIONAL AIRLINES

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D61/P/8574/98

A Management Project Submitted in Partial Fulfillment of the Requirements for the Award of the Master of Business Administration (MBA) Degree of the University of Nairobi

November 2002

DECLARATION

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

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DEDICATION

Dedicated to my beloved daughter **Albertina Ndinda**, whose birth gave me an encouragement to work hard in life.

ABSTRACT

The primary objective of the study was to assess the perceived level of attractiveness of the Kenyan market to International airlines. The research sought to know from the airlines with current operations in and out of Kenya what they thought the level of attractiveness of the Kenyan market was to them. The study was motivated by the fact that the airline industry in Kenya has generated a lot of business interest lately due to the continued exit as well as entry of international airlines into the Kenyan market. The researcher therefore sought to find out the real reason behind this perplexing situation.

Questionnaires were administered to senior managers/general managers of the airlines. Out of a total of 41 airlines that composed the total population, 29 responded, representing a response rate of 71%. Questions on the airline characteristics and profile such as their origin, the number and type of equipment operated, annual turnover, frequencies of operation per week were asked and the responses thereto formed the background information of the population.

Data analysis on the six factors studied employed the use of statistical tools mainly the mean and the mode, factor analysis as well as the Chi square test of independence.

The principal research finding was that the level of attractiveness of the Kenyan market to international airlines is moderate. This is because three of the six factors (Barriers to entry, Rivalry among firms and government influence) were rated as strong, making the market unattractive. The other three factors (Bargaining power of buyers, Bargaining power of suppliers and the threat of substitutes) were found to be weak thus making the Kenyan market attractive to international airlines.

CHAPTER ONE: INTRODUCTION

1.1 Background

As the speed of doing business in the world becomes critical, so has the need for fast and efficient communication. The demand for air travel has therefore grown with the growth of world economy. International air transport is the fastest growing mode of transport (Button, 1999). It performs a major function in the globalisation process and was a significant feature of the late 20th Century. Air transport acts as a lubricant for trade in a wide range of goods and services. It has been instrumental in stimulating many of the globalisation trends that have been seen in the world. It is also a sector that is a subject to considerable governmental interventions and one that requires sophisticated management to perform efficiently (Singh and Wah, 1997).

Like any other industry the performance of the Industry is determined by a host of factors. Competition between the players themselves, the government through its regulatory role, relationship with suppliers such as fuel companies, ground handlers, caterers and providers of in-flight utilities, the customers demands who have wider choice available to them and the prospective entry of new operators have an effect on profitability. Airlines try to work out the situation in their favour by lobbying the government, use of collaborative agreements such as Alliances and Partnerships, aggressive marketing tactics such as price cutting and frequent flier programs, offering consumers better services through improved product (Kleyman & Seristo, 2000).

With the September 11 2002 World Trade Centre (WTC) bombing the industry worldwide has been thrown into a crisis. Analysts predict airlines all over the world are going to incur losses amounting to well over $12b and the worldwide passenger numbers will decrease by 20% in the next one year (International Herald Tribune, Oct 22,2001)). The need to stem losses and seek profitable markets has never been more crucial in the industry and therefore airlines have to carefully look at all their operations and cut unnecessary costs in a bid to improve or maintain profitability.

An industry is defined as a group of firms that offer products that are close substitutes of each other to a market (Grant 2000,Porter 1980,Kotler 1998). The airline industry in Kenya is composed of international airlines, charters and scheduled domestic operators. Most of these specialize in passenger business while a few are in cargo business. The international airlines in Kenya mainly specialize in passenger business. The most prominent players operate into European and Middle East destinations. Those which operate into and out of Kenya into the African destinations are mainly middle-sized African carriers with the dominant ones being Kenya Airways, South African Airways, Egypt Air and Ethiopian Airlines. British Airways, KLM/Kenya Airways, Swiss Air and Sabena dominate the European routes while Emirates, Gulf Air, Kenya Airways and Air India dominate the Middle East and Eastern Asia routes (African Aviation Journal, February 2002). The market into and out of Kenya is consisted of business and corporate executives of international companies and organizations, diplomats, tourists, students and people visiting friends and relatives. All these travel between into Kenya and to international destinations all over the world. Besides the scheduled international passenger airlines, the industry is also composed of cargo-only international operators like Martin Air, Lufthansa and Air France. Others include charters and scheduled domestic passenger operators like Air Kenya and Aircraft Leasing Services whose operations are mainly based at the Wilson Airport (Daily Nation, 1999)

In Kenya the airline industry plays a key role in the economic development. According to the Government of Kenya Economic Survey 2000 (Government of Kenya, 2000), air transport accounted for over 40% of the total value of output from the transport sector. This makes it a very important sector of the Kenyan economy.

Kenya is the regional hub for international airlines in East Africa. Leading the way is Kenya Airways and KLM closely followed by British Airways and Regional Air. Nairobi is a host to many foreign diplomatic missions and international organizations such as UN and NGOs as well the commercial capital in the East African region in addition to being popular tourist destination has provided ready market for international airlines. The conflict in the Great Lakes Region has made Kenya the base for many humanitarian

organizations thus providing ready market. However competition for business has become fierce as airlines engage each other in strategic wars in a bid to win this business. While for some this has yielded positive results in terms of increased turnover and market share, for others the benefits have not been forthcoming and have been forced to leave Kenya due to declining fortunes.

The airline industry has witnessed the entry of new players as well as exit of others. With the entry of new players like Regional Air, Corsair and Air Austral the capacity offered has tremendously increased. Others like British Airways, KLM and Emirates have upgraded their equipment due to increased demand. South African Airways recently increased flights to daily frequencies on the Nairobi-Johannesburg route, further increasing the total capacity offered. Swissair, with all its current financial problems, has increased weekly flights into Nairobi from two to four effective November 2, 2001(East African Standard, 2001). The combined capacity offered by these airlines has afforded customers variety in the choice of airlines as well as the flexibility to shop for the cheaper fares in the market as airlines engage in price wars to fill the excess capacity. Besides suppliers like the caterers have continued applying monopolistic prices by overcharging on the food, utilities and other services they offer the airlines. Travel agents on the other hand continue demanding higher commission on their sales thus lessening the profit margins for the airlines. The situation has further been aggravated by the unfavourable government policy like the slow upgrading of the JKIA airport plus the poor relationship with the Air Traffic Controllers that sometimes leads airlines to chalk up huge losses. The combination of these factors has pushed airlines into a tight corner as cost of operations rise reducing profitability (The Kenya Times, 2001). As a matter of necessity therefore airlines have had to assess the Kenyan markets so see if it is profitable. This has led some airlines like Lufthansa, Alitalia, Air France, Olympic Airways, Kuwait Airways, Iran Air and Air Afrique to either opt for the cargo business or withdraw from the Kenyan market totally.

1.2 Statement Of The Problem

All over the world, airlines adopt the use of certain strategies to protect their market shares and keep away the competition. One of the most modern trends is to form Partnerships and Alliances in order to build a formidable force that will enable airlines to exploit markets they would otherwise not have exploited. The major alliances in the world are five namely; Star Alliance (United Airlines, Lufthansa, Singapore Airlines, SAS, Varig, Air Canada) One World (American Airlines, British Airways,Qantas, Cathay Pacific, Iberia, Finnair), Sky team(Delta Airlines, Air France, Korean Airlines, Aero Mexico),the Qualifier group(Swissair, Sabena, Crossair, LOT, Air Europe) and Wings Alliance(KLM, Northwest and Kenya Airways) –Airline Alliance Survey, May 2001. Ndoli (1999) says that airlines use these to preclude competitors from entering their markets. Grant (2001) says that another competitive strategy used by airlines is the hub-and-spoke concept that makes it difficult for competitors to enter the market. The adoption of these strategies has made some airlines dominate over others in certain markets .In many cases those airlines not members of particular alliances have had to pull out from certain markets where their operations are not viable due to competition from the strong players who are in strong partnerships or alliances. This situation is also prevalent in Kenya where mega carriers who are members of these alliances have completely dominated the small ones, many times pushing them out of the market completely.

In Kenya, the airline industry has been characterized by the exit and entry or expansion of the current players. Nearly every six months there are notable changes in the number of airlines operating into Kenya. In the past two years close to five major carriers have withdrawn or scaled down services into Kenya while a similar number has either entered the market or increased their capacities. The situation has further been complicated by the Sep 11 2002 World Trade Centre bombing, with major world carriers looking to tap profitable markets after the Trans-Atlantic routes became extremely unstable and unprofitable. Thus Kenya in particular has seen unprecedented increase in capacity offered from carriers such as British Airways and KLM.

The exit and entry or expansion of airline operations in the Kenyan market seems to send conflicting signals about the real state of the industry. While some firms like Kenya Airways, KLM, British Airways, South African Airways and Emirates thrive and new operators like Regional Air and Corsair enter the Kenyan market, others like Alitalia, Air France, Aeroflot, Air Afrique, Olympic Airways and Lufthansa have pulled out or have opted to remain in the cargo business only citing poor returns and stiff competition. For some the Kenyan market seem attractive enough to justify new or continued and expanded operations while to others it is unattractive and therefore had to pull out. The contrasting situation brings in a paradox, and hence the study intends to address the question whether or not the Kenyan market is perceived to be attractive to international airlines and if so, what the level of attractiveness is.

1.3 Objectives Of The Research

The objectives of the research were:

(i) To establish the extent of perceived attractiveness of the Kenyan market to international airlines as perceived by the operators

(ii) To identify the main factors and variables which influence airlines' strategic decision to operate in and out of Kenya

1.4 Importance Of The Study

The study is deemed to be of importance to the following:

The Aviation Policy makers in the government can use the findings to come up with policies to make the Kenya an attractive market for airlines. This can be done by trying to change the government policies that have been indicated to be restrictive to the operations of international airlines out of Kenya.

Corporate executives in the airline industry will use the information in drafting strategies and plans regarding how to operate in the Kenyan market. The study will help them

understand better issues like strategies mostly used by the competition to maintain their market shares in Kenya or issues related to buyer power. Through this knowledge they can be in a better position to steer business in the right path.

Investors can use the information to make decisions whether or not to invest in the industry. If the Kenyan market is attractive this may be a guarantee of returns to investments by airlines therefore attracting the investors.

Scholars in Strategic management will use the information to understand the state of the industry better. They will be able to differentiate which factors are strong and the ones that are weak as far as attractiveness of the Kenyan airline business is concerned. They can also use the information as a reference point to research on the application of Porter's Model to other industries. The structure of this research can be replicated in research of other industries and use it to assess whether Porter's Model is applicable to other industries as well.

Analysts can use the information to assess the likely profitability for airlines in the Kenyan market. Thus based on how they perceive the trend in the determinants of one factor is, they can be able to determine whether it will or not adversely affect the airline performance, which affects the profits.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

According to Porter (1980) Industry attractiveness is the high potential profitability of an airline as measured through the long-term return on capital invested. This is determined by five forces of competitive pressure in an industry – threat of new entrants, rivalry within the industry, threat of substitute products, bargaining power of suppliers and the bargaining power of buyers. Their collective strength determines the overall industry attractiveness.

The core of the firm's business environment is formed by its relationship with customers, suppliers and competitors who form the firm's industry environment (Grant, 2000).
Designing viable strategies for a firm requires a thorough understanding of the firm's industry and competition. The firm's executives need to know the boundaries and structure of the Industry so as to use it as a basis for thinking about the appropriate strategies appropriate to the firm, hence the need for Industry Analysis.

2.1 Industry Analysis

This is the examination of the important stakeholder groups in a particular corporations' task environment (Wheelen and Hunger, 1995). Rowe et al (1994), define industry analysis as an environmental scan to determine what forces in a firm's external environment have a direct impact on its competitive position and what competitive actions need to be taken to achieve a sustainable competitive advantage. It focuses on the industries in which the firm competes (Comerford and Callaghan, 1990). It is an orderly process that attempts to capture the structural factors that define the long-term profitability prospects of an Industry (Hax and Majluf, 1996).

Designing viable strategies for a firm requires a thorough understanding of the firm's industry and competition .The four issues that must be addressed are the boundaries of the industry, structure of the industry, firm's competitors and the major determinants of

competition (Pearce and Robinson, 1997). Porter (1980) argues that the essence of formulating competitive strategy is relating a company to its environment and one key aspect of this is the industry in which it competes. Since forces outside the industry are significant in a relative sense, the key is for the firm to find differing abilities to deal with them.

The purpose of conducting Industry analysis therefore is mainly to understand the forces behind industry performance in order to match strategy to industry conditions. This involves the identification of the opportunities and threats posed by the state of the industry so as to come up with the appropriate strategy (Porter 1980), to determine what competitors are doing, what threats and opportunities exist, and whether the firm should enter, remain or exit an industry (Rowe et al, 1994). It is a basis for gaining familiarity with the products, competition, resource requirements and constraints peculiar to the line of a business (Comerford and Callaghan, 1990).

Various researchers have analyzed the state of various industries in Kenya in relation to changed economic conditions especially liberalization. They include Bett (1995), Chaudhary (1993), Mohammed (1995), Kombo (1997), Sheikh (2000) and Njau (2000). Their overall conclusion was that the changed environment has affected business practices and made firms to be more competitive. Bett (1995) studied the state of the dairy industry and after liberalization and found out that the industry made adjustments in their marketing mix components- product, price, promotion and place in order to adapt to changes and remain competitive in the face of liberalization. The firms also adopted more market-driven strategic approaches in order to cope with competition. Kombo (1997) concluded that firms had made substantial adjustments in their strategic variables in order to survive in the competitive environment. Mohammed (1995) concluded that the importation of reconditioned and used motor vehicles affected the marketing mix components of franchise and subsidiary motor vehicle companies in Kenya. Njau (2000) and Sheikh (2000) noted that firms have adjusted their strategic variables in order to meet the challenges of competition.

2.2 Industry Attractiveness

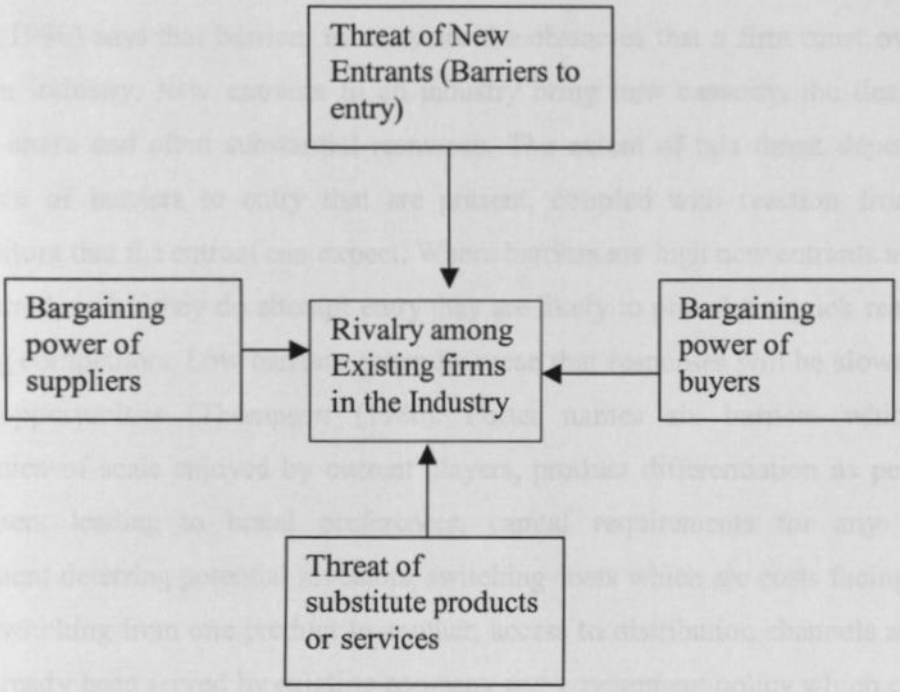
Porter (1980) says that industry attractiveness is the high potential profitability of an industry that is measured through the long-term return on the capital invested as determined by five sources of competitive pressure. These are the threat of new entrants, rivalry within the industry, threat of substitute products, bargaining power of suppliers, and the bargaining power of buyers.

To analyse the attractiveness of an industry, the collective strength of all the five competitive forces in the Porter's Model must be assessed. The stronger the forces, the lower the collective profitability for participating firms. The competitive structure of an industry is clearly unattractive from a profit-making standpoint if rivalry among sellers is very strong, entry barriers are low, competition from substitutes is strong, and both suppliers and customers have considerable bargaining leverage. On the other hand, when an industry offers superior long-term prospects, competitive forces are not unduly strong and the competitive structure of the industry is favourable and attractive (Koch 1995). The ideal competitive environment from a profit-making perspective is one in which both suppliers and customers are in a weak bargaining position, there are no good substitutes, entry barriers are relatively high, rivalry among present sellers is only moderate and the government influence is less (Thompson and Strickland, 1989).

2.3 The Porter's Model

Porter (1980) says that industry competition and hence attractiveness depends on five basic forces namely the threat of new entrants, rivalry within the industry, the threat of substitute products, bargaining power of suppliers, bargaining power of buyers. Their collective strength determines the overall industry attractiveness.

Figure 1 – The Porter's Model



Source: Porter M.E (1982)- Competitive Strategy: Techniques for Analysing Industries and Competitors, Free Press

The collective strength of these forces determines the ultimate potential of an industry. If the factors are collectively weak the potential for industry profitability becomes high and vice-versa (Wheelen and Hunger 1995). Changes in the characteristics of each of these factors are responsible for generating new opportunities and threats and a new set of key success factors (Boseman and Phatak, 1989). A good industry will have high returns on capital, clear barriers to entry, capacity at or below level of demand, reasonable market growth, little threat by substitutes and low bargaining power by both suppliers and buyers (Koch, 1995).

2.3.1 Barriers to entry

Porter (1980) says that barriers to entry are the obstacles that a firm must overcome to enter an industry. New entrants to an industry bring new capacity, the desire to gain market share and often substantial resources. The extent of this threat depends on the existence of barriers to entry that are present, coupled with reaction from existing competitors that the entrant can expect. Where barriers are high new entrants are likely to be deterred, and if they do attempt entry they are likely to provoke a quick reaction from existing competitors. Low barriers generally mean that responses will be slower, offering more opportunities (Thompson (1986). Porter names six barriers which include economies of scale enjoyed by current players, product differentiation as perceived by consumers leading to brand preferences, capital requirements for any substantial investment deterring potential investors, switching costs which are costs facing the buyer when switching from one product to another, access to distribution channels as they may have already been served by existing company and government policy which can limit or foreclose entry with such controls as licensing requirements and access to raw materials. Other forms of entry include the inability to gain access to technology, tariffs and international trade restrictions (Newman, Logan and Hegarty 1989).

The entry of new players disrupts industry stability by creating a market dilution because they increase industry capacity and destabilize the price structure leading to decrease in profitability (Keegan 1995). Jones (2001) gives the example of the airline industry in the USA after deregulation in which new entrants such as Southwest Airlines entered the market and a price war ensued in a bid to gain or protect market share. As a result industry stability and profitability during the era of protectionism was severely jolted. What is needed to maintain the barriers is to have unique capabilities, not transferable to competitors, which can make entry easy for the firm and unacceptably difficult for everybody else (Hax and Majluf, 1996). According to Grant (2001) airlines have adopted new competitive tactics to protect their market share through the use of hub-and-spoke networks that make it difficult for new firms to enter the industry. Ndoli (1999) says that airlines use alliances and partnerships to preclude competitors from entering the market

as they act as one identity to raise barriers. Thomas (1978) says that some of the most commonly used barrier to competition entry is through use of the benefits of scale, propriety technology and service differentiation. In their study of the Pharmaceutical industry, Sudhaushan et al (1991) studied the Pharmaceutical industry in the UK and found out that the scope and financial strength act as barriers to the industry. Davies (1994) in his study of the UK supplier – retailer relationship says that barriers to entry into a market can be raised through a strong supplier relationship and cementing relationship with retailers, which prevents new suppliers from entering existing markets.

2.3.2 Rivalry within the industry

Rivalry among existing competitors takes the form of jockeying for position-using tactics like price competition, advertising battles, product introductions and increased customer service or warranties (Porter, 1980). Rivalry occurs because one or more competitors either feels the pressure or sees the opportunity to improve position. Competitive moves by one firm have noticeable effects on its competitors and thus may incite retaliation or efforts to counter the move because all firms are mutually dependent.

Porter (1980) opines that rivalry is the result of a number of interacting structural factors which includes numerous or equally balanced competitors where there are mavericks who believe they can make moves without being noticed, slow industry growth which turns competition into a market share game for firms seeking expansion, high fixed or storage costs which create pressures for all firms to fill capacity thus leading to escalating price cutting when excess capacity is present and lack of differentiation or switching costs. Other reasons include high exit barriers, high strategic stakes and diverse competitors. These moves provoke countermoves from other players as each one tries to get a dominant position. This can lead to industry wide misery in the form of depressed profits and loss of market growth (Keegan, 1995).

Price under-cutting and product improvements have become the main weapons used by rivals in the airline industry to beat competition and the intensity of their use the more the

rivalry (Grant, 2001). In his study of the Kenyan beer Industry, Njau (2000) found out that East African Breweries Ltd (EABL) was forced to adjust its product offerings, prices and increased promotion so as to improve competitiveness and maintain market share as a result of Castle Breweries entering the market.

2.3.3 Threat of Substitutes

All firms in an industry are competing, in a broad sense, with industries producing same products. Substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge (Porter, 1980). The availability of substitute products places limits on the prices firms can charge in and industry (Keegan 1995). Whatever form of substitution has an influence on price ceiling in the market and therefore places some upper limits on returns (Hax and Majluf, 1996). This is because availability of substitutes invites customers to compare quality, performance as well as price (Thompson and Strickland, 1989). Where the level of substitution is high profitability is decreased but where it is low profits are likely to be high.

In his study of the Motor Vehicle Industry in Kenya, Mohammed (1995) found out that the Franchise and subsidiary Motor vehicle firms in Kenya tied to reduce the attractiveness of the substitutes products by increasing the after-sales services as well as increasing their product range and through differentiation.

2.3.4 Bargaining power of suppliers

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

Suppliers tend to be powerful when there is domination by a few suppliers; the supplier group's products are differentiated; switching costs are high; there is possibility of

forward integration; the industry is not an important customer of the supplier and the supplier's product is an important input to the buyer's business (Porter, 1980).

Singh and Wah (1997) studied the relationship between suppliers and airlines. They found out that suppliers and airlines tended to form closer links for mutual benefit. They concluded that suppliers were very important in the performance of the company.

In their study of the U.K automotive industry, Leverick and Cooper (1998) observed that organizations have apparently tended to move away from adversarial relationship with suppliers towards a more co-operative way of doing business. They also observed that a well-managed supplier relationship could be highly beneficial to both parties in terms of potential time and cost savings.

2.3.5 Bargaining power of Buyers

This is the ability of buyers to influence prices of the firm's outputs. 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.

According to Pearce and Robinson (1980), buyer power is high when the volumes of purchases of the buyers are high which raises their importance; there are alternative sources of supplies; the cost of switching a supplier is low; there is the threat of backward integration; the products purchased represent a significant fraction of the buyer's costs and purchase and the buyer has full information about demand, actual market prices and supplier costs. Keegan (1995) argues that buyer's interests are served if they can drive down profitability in the suppliers industry.

According to Singh and Wah (1997), buyer (customers) demands for safe and hassle-free traveling has forced airlines to increase safety checks and using faster ways to check-in passengers such as the use self-ticketing and use of smart cards. Njau (2000) says that with the entry of Castle Breweries the traditional buyers from East African Breweries Limited (EABL) became more demanding as Castle came up with various incentive programs aimed at attracting customers formerly loyal to EABL.This forced EABL to come up with various measures so as to address this shift. A study carried out by the

Kenya National Chamber of Commerce and Industry in March 1998 revealed that consumer demands were forcing banks to adopt the use of computers as well as coming up with new financial services. This concurs with a similar study carried out in 1996 to determine the effect of consumer demands which revealed out that consumer needs and wants have continued to change resulting in innovations like the Automated Teller Machines (ATMs) and other services like the Junior Account.

2.3.6 Modification to the Porter's Model: The Government as a force in the industry

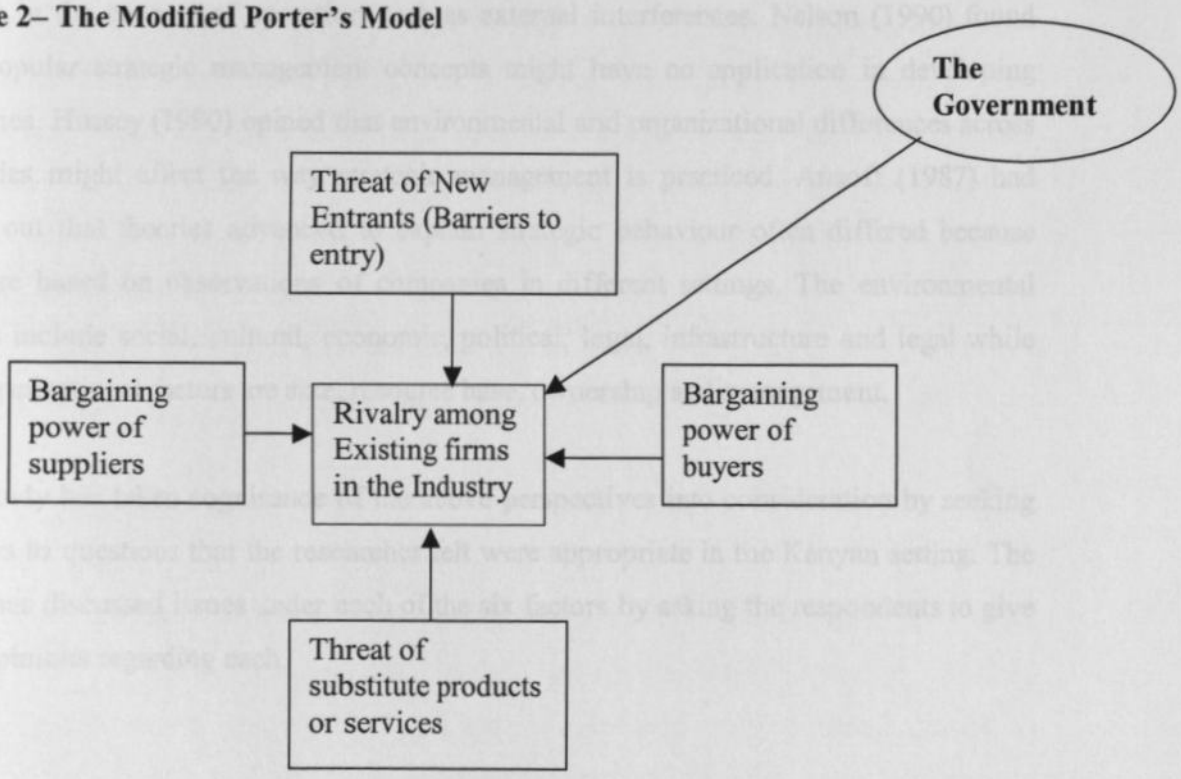
A modification of the Porter's Model is the addition of a sixth force which is the government (Grant 2000), (Wheelen and Hunger, 1990) because it has a direct or indirect influence on business through its laws and regulations therefore affecting performance of firms. Porter mentions the government as an entry barrier but Wheelen and Hunger opined that the government could be mentioned as a force on its own due to its strong influence on business. Porter said that the importance of the government lies in its ability to affect the other five forces through changes in policy and new legislation. However other writers such as Grant (2000) have advocated for the government to be treated as a sixth factor. Other writers who share the same view include Thompson, (1998), Wheelen and Hunger (1990) and Albaum et al (1989).

In the airline industry the government plays a critical role through its regulatory role of granting traffic rights and the bilateral air services agreements. The addition of the government as a sixth force gives rise to the Modified Porter's model.

The government can influence many if not all aspects of industry structure both directly and indirectly in the following ways; its policies can set limits on the behaviour of firms and also through its influence on industry growth and the regulations through cost structure. Therefore no structural analysis of an industry is complete without a diagnosis of how present and future government policy will affect structural conditions.

The government political systems, international policies, stability, orientation, its laws and regulations all play a crucial role in the performance of the firm and therefore cannot be ignored (Singh and Wah, 1997). Taylor and Harrison (1990) studied the effect of Singapore government's policies on Singapore airlines. They found out that government policies in regard to liberal visa rules, infrastructure and promotion of Singapore as a shopping paradise and upgrade of airport facilities helped Singapore airlines to prosper. In their study of the role of government in export management, Albaum et al (1989) found out that government intervenes in the economy by being a planner, controller or stimulator.

Figure 2– The Modified Porter's Model



The study has utilised the modified Porter's framework in the assessment of the perceived extent of the attractiveness of the Kenyan market for international airlines as well as understanding the nature of the industry. The study will use factors related to but not exclusive to the model to achieve this objective. The model basically has five factors but a sixth one has been because of it is felt that it is a major determinant of success in

this industry. Although developed in the developed countries, the researcher feels the model can be applied in Kenya because almost all the factors are evident judging from the past strategic moves by airlines operating into Kenya. However Grant (2000) says that the Porter framework suffers from some critical limitations and in particular because it does not take adequate account of the dynamic character of competition .He says that competition is a powerful force that changes Industry structure and its dynamism must be considered. Palvia et al (1990), say that the use of Porter's model is appropriate in a free market therefore modification needed to suit developing countries. This seems to concur with what other writers (Aosa, 1992), (Glueck and Jauch, 1984), (Austin, 1990), (Pugh et al, 1969) and Blunt (1980) have said; that management is influenced by contextual factors in the country of operation such as external interferences. Nelson (1990) found that popular strategic management concepts might have no application in developing countries. Hussey (1990) opined that environmental and organizational differences across countries might affect the way strategic management is practiced. Ansoff (1987) had found out that theories advanced to explain strategic behaviour often differed because they are based on observations of companies in different settings. The environmental factors include social, cultural, economic, political, legal, infrastructure and legal while the organizational factors are size, resource base, ownership and management.

This study has taken cognisance of the above perspectives into consideration by seeking answers to questions that the researcher felt were appropriate in the Kenyan setting. The study has discussed issues under each of the six factors by asking the respondents to give their opinions regarding each.

CHAPTER 3: RESEARCH DESIGN

3.0 The Population

The population under study was composed of those airline companies that have passenger transport as their core business. These have or used to have scheduled and regular operations out of the country to international destinations. Thus the study also included airlines that had scheduled operations into Kenya and pulled out for some reasons. This was useful in finding out the reasons that led to their exit from Kenya. However, charter operators, domestic operators, cargo-only carriers and other operators like the UN operations were excluded from this research. These airlines studied were the ones with or used to have operations out of JKIA. The population was chosen on the basis that the carriers had regional offices with their staff in Nairobi. Besides, their international operations made them able to assess better the attractiveness of the Kenyan market in comparison to other places in the world. Since the population was relatively small (41 airlines), a census study of all of them with regional offices or representatives in Nairobi was envisaged (See Appendix II). Data was collected from 29 of these airlines, or 71% of the total.

3.1 Data Collection

The study used the primary data collected through use of Personal Interviews. This involved use of a semi-structured questionnaire to provide detailed information including other supplementary information through probing therefore availing them a chance to give any other information they considered relevant. It also gave respondents considerable liberty in expressing their definition of a situation that is presented to them. Personal interview allowed for flexibility as the researcher could seek clarification of unclear terms. The response rate was also considered to be fairly high compared to other methods of data collection like mail questionnaire. Since the population in this case was relatively small, a high response rate was critical so as make representative conclusions about the industry. The questionnaire was divided into three parts as follows:

Section A – Company profile - overall picture of the company in terms of ownership, number of employees, number of aircrafts, annual turnover etc.

Section B –questions were categorized under each of the factors in the modified Porter's model as well as other related factors which can explain the nature of the industry.

Section C- Respondents were given a chance to give their overall assessment of how they think each of factors is important in determining the nature of the industry and the level of attractiveness.

CHAPTER FOUR: DATA ANALYSIS AND DISCUSSIONS

4.0 The Research Approach

A total of 41 airlines based in Nairobi were targeted for the study. These were categorized into origin of carrier that consisted mainly three areas – Africa, Europe and Asia – principally because their origin fitted into those three categories. The question format used for most of the questions was based on the 5-point Likert scale whereby respondents were asked to assess their agreement or importance they attached to various variables under each factor in determining the level of attractiveness of the Kenyan market to International airlines. Respondents were also be given an opportunity to assess a situation by answering question that required a Yes or No answer or by ticking what they felt was relevant depending on the question. For purposes of this research the following Likert scale was used: Very High/Strongly Agree–1,High/Agree–2, Moderate/NeitherAgree-3, Low/Don'tAgree-4 and Negligible/Strongly Disagree – 5.

Completed questionnaires were edited for completeness to ensure accuracy and consistency of information obtained. Data was summarized and tabulated using defined characteristics like origin of operator, routes operated, annual turnover, frequency of operations and aircraft types. The responses were coded to facilitate statistical analysis by use of descriptive statistics such as frequency tables, bar and pie charts and histograms to give a visual display of the score given to the items under each of the factors. Measures of tendency such as the arithmetic mean and the mode were be used. The mean helped show the average score per factor by summing up the score on each item under a factor and dividing by the number of items. The higher the mean was among items in a factor, the stronger was the factor in creating unattractiveness of the Kenyan market, because it meant its effect was rated as high or very high and thus strong, and the stronger a factor is, the unattractive the market is. The mode was used to show how the items scored in terms of aggregate, therefore revealing the items which scored highest, which in turn was taken as the major items or variables which to a large extent influence the effect of a factor in determining attractiveness.

This analysis assisted the researcher to make a conclusion whether the factor was strong or weak in determining the airline industry attractiveness in Kenya.

To deduce the variables that were strong indicators for each factor, Factor Analysis was used. Pearson's correlation(r) between all the items under each factor was done and the correlations placed in a matrix format. Items with highest correlation (tending towards 1) with each factor were taken as the best indicators or determinants of the factors, and hence the major items that should be given attention by airlines operating into Kenya as they heavily influence the ability of that factor to determine the attractiveness of the Kenyan market. This finding was important as it could be used to assist the airlines focus their strategies on the main variables that heavily determine the attractiveness of the Kenyan market.

To arrive at the factor that could be exclusively used to describe the dimension studied (the level of attractiveness of the Kenyan market to international airlines), Percentage of variance was calculated. The factor with the highest percentage of variance was taken as explaining the most important factor to be considered in assessing the attractiveness of the Kenyan market. This analysis was important as it could assist airlines to focus on the major factor in Kenya regarding market attractiveness.

The analysis and presentation of the responses was done in two parts. Part 1 was on basic airline information such as number of airlines operating in and out of Kenya, routes of operation; frequencies (number of times) operated per week, annual turnover, number and origin of employees and aircraft types. The Chi test of independence was employed to check if any relationship exists between airline characteristics such as number and type of fleet, number of routes and frequency of operation and annual turnover.

Part 2 dealt with analysis of research findings as per the scores under each of the six factors used in the research as a basis to determine industry attractiveness. Various measures such as the use of the mean, the mode and Factor Analysis were mainly used here to arrive to give the research findings and hence conclusions.

Data analysis was done by use of Statistical Package for Social Sciences (SPSS)- See Appendix III.

4.1 Findings on Airline profiles

An analysis and findings based on the respondent's answers to the questions dwelling on the airline profile such as airline origin, number of routes operated, number of weekly frequencies, annual turnover in Kenya and number and origin of employees was done. Frequency tables were used to tabulate the responses given. An attempt to check out if any relationship existed between the various aspects of the airline profile was done using the Chi-square test of independence.

4.1.1 Airline by origin

This sought to know the origin of the airlines in order to give a general impression of where the airlines operating into Nairobi come from as well as how many of these have current operations into Nairobi. Basically, the origin was divided into three continents – Africa, Europe and Asia - as all the airlines' origins could be fitted into these areas.

Table 1- Airline by origin

Origin	Total Respondents	Currently operating into Kenya	% of current operators to total respondents per origin
AFRICA	14	11	79
ASIA	8	4	50
EUROPE	7	5	79
TOTAL	29	20	71

Of the 29 airlines that responded, 20 or 69% have current operations into Kenya. On an origin basis, the total respondents from Africa were 14 or 48% of the total respondents, of which 11 or 79% currently operate into Kenya. Of the respondents from Asia, 8 airlines

responded representing 28% of the total respondents. Of those 4 or 50% have current operations into Kenya. The respondents from Europe were 7 or 24% of which 5 or 71 % have current operations into Kenya. Since the majority of respondents (48%) were from Africa, the responses by African carriers can be said to have had a strong influence on the overall result.

4.1.2 Number of routes operated

A route refers to airline services between Nairobi and another destination. This means an airline flies between Nairobi and another point in a different country. For example Kenya Airways service between Nairobi and London is a route. However, even though an airline may not active operations between Nairobi and its country of origin, it may have a representative who sales in the Kenyan market and feeds into that airline through other airlines.

Table 2-No. of routes operated

No. of routes	Score	% of total
0	11	38
1	13	45
2 and above	5	17
Total	29	100%

Of the 29 airlines surveyed 13 or 45%, operate on one route only into Nairobi. The airlines with no current operations into Nairobi (0 routes) were 11 or 38%. The airlines operating two or more routes were only 5 or 17% of the total.

4.1.3 Number of weekly flight frequencies

Flight frequencies refer to the number of times an airline operates between Nairobi and another destination in a week. Airlines with no direct operations have been indicated as having 0 frequencies.

Table 3 - No. of weekly frequencies

Frequency/Week	Number airlines	% of total
0	10	34
1	4	14
2 and above	15	52
Total	29	100

The majority of the airlines (15 out of 29 or 52%) have at least 2 and above weekly frequencies into Nairobi. This means that most of the airlines find it worthwhile to operate into Kenya, as many frequencies may be an indication of a big and profitable market that can be exploited.

4.1.4 Annual Turnover in Kenya

The annual turnover refers to the amount of sales an airline is able to realise in Kenya in a year. Turnover is one of the measures of the level business activity for any company and therefore this analysis was done in order to assess the level of business for the international airlines in Kenya.

Table 4 – Annual Turnover

Turnover (in USD millions)	Number of airlines	%
Less than 5	11	38
Less than 10	7	24
Over 10	11	38
Total	29	100

From the above it can be seen that most of the airlines (11 or 38%) have an annual turnover of either over $10 million or below $5 million while the rest (7 airlines or 24%) have an annual turnover of below $10m.This means the airline industry is characterised by small-scale, medium scale as well as big scale airlines in respect to the annual turnover.

4.1.5 Number and origin of employees

Airlines in Kenya employ both local and foreign (expatriate) employees. The expatriates are mainly the top-level managers who protect the interests of the multi-national airlines, while the locals mainly constitute the middle level management to low-cadre staff. The number of staff is mainly dependent on the scale of operations, profitability and company policy on recruitment.

Table 5 – Number and origin of employees

Number of employees	Airlines with local employees	Airlines with foreign employees
Between 0 and 10	17	17
Over 10	12	0
Total	29	17

All the airlines have employed a certain number of local employees and foreign employees. Of total respondents (29) with local employees, 17 or 59% of them have employed at least up to 10 local employees while the rest (12 or 41%) have more than 10 employees.17 airlines or 59% of the total respondents have foreign employees. However all these airlines have employed less than 10 foreigners. The fairly large number of airlines (17 out of 27 or 59%) may be an indication that airlines attach a reasonable level of importance to the Kenyan market, as their presence may be an indication of a fairly large business that needs some degree of attention by managers appointed by the head offices.

4.2 Relationship between the airline profiles

An attempt to check out if any relationship between airline profiles such as number and type of fleet, number of routes and frequency of operation and annual turnover was done. The rationale for this analysis was that in the airline industry there is usually a strong relationship between some aspects like number of aircrafts and the frequencies operated, the frequency of operations and the routes, the number of frequencies and the level of annual turnover. This analysis was carried to check out if any such relationship existed for airlines operating in Kenya. The technique used was the Chi-square test of independence.

In assessing the level of attractiveness these aspects may to some extent determine the performance of the airline in the market in regard to its profitability and hence its perception of market attractiveness.

4.2.1 Number of fleet and type of fleet

Under the null hypothesis it is assumed that such a relationship exists.

Ho = There is a relationship between the number of fleet and the type of fleet

Hi = There is a relationship between the number of fleet and the type of fleet

The table below shows the frequencies.

Table 7 – Type of fleet and No. of fleet

	Type of fleet			
No of fleet	**Origin**	Boeings	Airbus & others	Total
	Europe	6	5	11
	Asia	1	6	7
	Africa	8	7	15
	Total	15	18	33

Source: Research data

The expected frequencies of each cell are calculated using the following formula;

$$\text{Expected frequencies} = \frac{(\text{row total})(\text{column total})}{\text{Total}}$$

The result is as shown below, shows frequencies expected if any relationship exists between the type and number of fleet operated.

Table 8 – The Expected frequencies

	Type of fleet		
Origin	Boeings	Airbus & others	Total
Europe	5	6	11
Asia	3	4	7
Africa	7	8	15
Total	15	18	33

To calculate the Chi-square, the expected frequencies of each cell from the observed frequencies, square them, divide by the expected frequency of the cell and sum for all cells. The result is summarized below.

Table 9 - Chi square results

fo	fe	(fo-fe)	$(fo-fe)^2$	$(fo-fe)^2/fe$
6	5	1	1	0.2
1	3	-2	5	1.5
8	7	1	1	0.2
5	6	-1	1	0.2
6	4	2	4	1.0
7	8	-1	1	0.1
				$X^2=3.2$

The result of $X^2 = 3.2$ is smaller than the critical value of 10.6 at 0.005 level of significance with 2 degrees of freedom. This would appear to mean that there is no relationship between the number and type of fleet therefore the null hypothesis is rejected.

4.2.2 Number of Frequencies and Number of Routes

Ho = There is a relationship between the number of frequencies and the number of routes operated.

Hi = There is no relationship between the number of frequencies and the number of routes operated.

Table 10 – Frequencies and Routes

	Number of routes		
Frequencies	0	1& above	Total
0	10	0	10
1 & above	0	19	19
Total	10	19	29

Table 11 –The Expected Frequencies

	Number of routes		
Frequencies	0	1& above	Total
0	3	7	10
1 & above	7	12	19
Total	10	19	29

Table 12 - Chi-square results

fo	fe	fo-fe	$(fo-fe)^2$	$(fo-fe)^2/fe$
10.0	2.9	7.1	50.5	17.5
0.0	7.0	-7.0	49.0	7.0
0.0	7.0	-7.0	49.0	7.0
19.0	12.0	7.0	49.0	4.1
Chi-square results				$X^2 = 35.5$

The $X^2 = 35.5$ is larger than the critical value of 10.6 at .005 level of significance with 2 degrees of freedom. This therefore indicated that there was a relationship between the number of frequencies and the number of routes operated out of Nairobi as per the population studied. This means that the more the frequencies the more routes operated.
The null hypothesis was therefore accepted.

4.2.3 Annual Turnover and the number of Frequencies

Ho = There is a relationship between an airline's annual turnover and the frequency of operations into Kenya

Hi = There is no relationship between an airline's annual turnover and the frequency of operations into Kenya

Table 13 - Turnover and weekly Frequencies

	Number of Frequencies		
TURNOVER	None	1& above	Total
Less than USD 5Million	7	6	13
Less than USD 10Million	1	8	9
Over 10Million	0	7	7
Total	8	21	**29**

Table 14 - Expected Frequencies

	Number of Frequencies		
TURNOVER	0	1& above	Total
Less than USD 5Million	4	9	13
Less than USD 10Million	2	7	9
Over 10Million	2	5	7
Total	8	21	29

Table 15 - Chi-square results

fo	fe	fo-fe	$(fo-fe)^2$	$(fo-fe)^2/fe$
7.0	4.0	3.0	9.0	2.3
1.0	2.0	-1.0	1.0	0.5
0.0	2.0	-2.0	4.0	2.0
6.0	9.0	-3.0	9.0	1.0
8.0	7.0	1.0	1.0	0.1
7.0	5.0	2.0	4.0	0.8
				$X^2 = 6.7$

The X^2 =6.7 is smaller than the critical value of 10.6 at .005 level of significance with 2

degrees of freedom indicating that there is no relationship between the annual turnover and the number of frequencies. The null hypothesis is thus accepted.

4.3 Assessment of the attractiveness of the Kenyan market

The respondents' views regarding various factors used as a basis to determine the attractiveness of the Kenyan market to international airlines was analysed and the findings per each factor presented below. A summary of the findings, which includes the rating per each variable (frequency tables) under a factor as well as the mean and mode scores, was presented alongside factor analysis.

4.3.1 Barriers to entry

These are barriers a firm must overcome to enter an industry. The new entrants tend to bring into an industry new capacity and substantial resources that threatens the market position of the current players. However the extent of this threat depends on the existence of barriers that currently exist and the retaliatory action by current players. Barriers may be general across some industries or may be peculiar to an industry, and their strength (ability to deter entry of new entrants) differs between industries.

In the airline industry some of the major barriers include the high operating costs for on-line operations, competitor alliances and partnerships which tend to consolidate the market position and price wars in the form of reduced fares which tend to reduce profitability hence deters prospective entrants. Specific government regulations like the limitations on the number of traffic rights given to a country's carrier may make market access difficult, while economies of scale enjoyed by current operators may make them offer concessions to the market which a new entrant cannot afford. Access to travel agents is important for an airline to realize sales and if this may act as a barrier to a new entrant who may not be known in the market hence hard to sell. The airline technology acts as a deterrent to new entrants because it is expensive to match the established airlines on this, some of whom have the latest modern aircrafts that are preferred by customers.

The above variables were used in the study and the results are as shown below:

Table 7 (a) – Barriers to entry

Rate the effect of the following	V. High	High	Moderate	Low	Negligible	Total
Start-up costs	7	5	8	6	1	27
Competitor alliances	1	12	9	5	1	28
Operating costs	7	9	8	5	0	29
Price wars	5	15	7	2	0	29
Govt. regulations	2	6	14	4	1	27
Economies of scale	2	8	6	11	0	27
Access to travel agents	0	4	7	10	6	27
Level of Technology	5	7	7	8	1	28
Overall assessment of barriers	3	8	9	8	0	29

From the above table the effects of start-up costs, competitor alliances, operating costs price wars, level of technology and government regulations were heavily scored in the moderate to high hence these are high indicators of the barriers to entry. Economies of scale and access to travel agents were heavily scored as moderate to low, meaning that they are not significant factors as barriers to entry.

Table 7(b) - Mean and Mode scores

Item	Mean	Mode
Start-up costs	3.4	3.0
Competitor alliances	3.4	4.0
Operating costs	3.9	4.0
Price wars	4.1	4.0
Govt. regulations	3.1	3.0
Economies of scale	3.0	2.0
Access to travel agents	2.3	2.0
Technology	3.4	2.0
Overall assessment	3.4	3.0

Start-up costs, competitor alliances, operating costs, price wars, government regulations and level of technology had more than 3.0 as mean score, meaning that they were generally rated as moderate to very high. Access to travel agents and level of technology

had a mean score of 3 and below, meaning they were generally rated on the moderate to low category.

Table 8 – Barriers to entry

Item	Pearson Correlation
Start-up costs	.644
Competitor Alliances	.227
Operating costs	.799
Price wars	.626
Government regulations	.122
Economies of scale	.036
Access to Travel Agents	-.766
Technology	.396

Operating costs, start-up costs and price wars are the major prominent items as far as barriers to entry/threat of new entrants is concerned. This is because their correlation factors are high compared to the other variables. Therefore in defining the major causes of barriers to entry in the Kenyan market to international airlines, these three items can be used to explain it. The possible implication of this to airlines wishing to start operations into Kenya is that these issues require serious attention in order to be successful in overcoming the barriers to entry into the Kenyan market. Access to travel agents, economies of scale and government regulations are the least important as barriers to entry into the Kenyan market.

From the above analysis the overall assessment for all the items under barriers to entry based on the mean score was above average (i.e. 3.4) meaning that this factor (barriers to entry) could be regarded as a strong one when it comes to deciding whether it to start operations in/out of Kenya. Prospective new entrants therefore have to address this factor before entering the Kenyan market. Judging from the mean score as well as the high ratings of the variables on the Likert scale, it appears as though barriers to entry are strong in the Kenyan market since the effect of most of the variables has been highly rated.

4.3.2 Rivalry within the Industry

All firms in an industry compete against each other for market dominance through use of aggressive tactics. In the airline industry some of the tactics employed by rivals include pricing, promotion, distribution, in-flight product offering, use of superior equipment, better connectivity, customer service, e-commerce as well as use of alliances with other airlines. To assess the level of rivalry among the international airlines in Kenya, an analysis of the variables mentioned above was carried out.

Table 9(a) – Rivalry within the industry

	Very High	High	Moderate	Low	Negligible	Total
Rate Intensity of Competition	7	16	3	3	0	29
How has competition affected profitability?	4	16	4	3	2	29
Overall assessment of competition/rivalry	10	14	3	1	1	29

	Strategies used by competition	Strategies used to beat competition
	No. of respondents	
Pricing	27	23
Promotion	15	13
In-flight product	21	4
Superior equipment	15	13
Customer service	19	21
Alliances	6	20

Almost all the respondents (23 or 80%) agreed that stiff competition was prevalent in the industry and rated its intensity as high to very high. A high number of respondents (20 or 69%) also said that competition has adversely affected profitability while 24 respondents or 79% overall rated competition as high or very high.

Of the strategies used by the competition pricing, In-flight product and customer service were indicated as the major one while strategies used to beat competition include mainly the use of pricing, improving customer care as well as alliances to boost their global reach. With the increased competition in the market, most of the respondents agreed that this has affected their profitability highly.

Table 9(b)- Rivalry within the industry Mean and Mode scores

Item	Mean	Mode
Rate Intensity of competition	4.0	4.0
Effect on profits	3.3	4.0
Overall assessment	3.8	4.0

On the mean score, the intensity of competition, the negative effect of competition on profits and the overall assessment of threat of competition scored over 3.0, meaning they were rated highly. The mode scores on the same items was equally high (4.0 for all) indicating that they were thought to be major determinants of the competition in the industry.

4.3.2 Table 10 - Rivalry within the Industry

Item	Pearson correlation
Pricing	.998
Promotion	.882
Distribution	.870
Product Enhancement	.984
Customer Service	.984
In-flight Product	.936
Superior Equipment	.882
Use of e-commerce	.137

The high correlation factor on all items except the use of e-commerce seems to indicate that they are prominent in the determination of the state of rivalry within the airline industry in Kenya. As a result of the airlines operating in Kenya could employ these

tactics to win customers. It may also imply that airlines need to watch how their rivals use them in order to devise counter-strategies.

4.3.3 Bargaining Power of Buyers

Table 11 (a) – Bargaining Power of buyers

Customer Influence on:	V. High	High	Moderate	Low	Negligible	Total
Pricing	5	5	10	7	2	29
Distribution/Location		4	5	9	6	26
In-flight service	2	4	8	7	4	25
E-commerce			7	14	3	24
New Product development	1	6	10	7	2	26
Terms of ticket sales	3	3	8	10	3	27
Flight scheduling	3	4	8	9	2	26

Airline Power over buyers	V. High	High	Moderate	Low	Negligible	Total
Pricing/Fare		14	10	2		26
Flight scheduling	1	14	7	4	1	27
Terms of ticket sale	1	14	7	4		26
Equipment type operated	5	12	5	3	1	26
Extent of buyer power over you	4	3	8	13	2	29

Table 11(b) - Mean and mode score

BUYER POWER OVER AIRLINES	Mean	Mode
Pricing	3.1	3.0
Distribution/Location	2.1	2.0
In-flight service	2.7	3.0
e-commerce	2.2	2.0
New Product development	2.9	3.0
Terms of ticket sales	2.7	2.0
Flight scheduling	2.9	2.0

The mean scores on the assessment of buyer power over airlines reveals that almost all the items scored below the average score of 3.0, meaning that respondents heavily rated them on the low. The mode reveals that the predominant score was 2.0 thus also revealing that most of these items were lowly rated.

Table 12 - Bargaining Power of buyers

Item	Pearson correlation
Pricing	.590
Distribution	-.171
In-flight service	.904
E-commerce	-.328
New Product development	.000
Terms of ticket sale	.069
Flight scheduling	.912

The best indicators of the amount of power buyers have over sellers are pricing, in-flight service and flight scheduling aspects. This seems to imply that airlines should devise suitable strategies to suit the consumer as far as these issues are concerned. However aspects like new product development, distribution and adoption of e-commerce by airlines seem to have little or no relationship at all with buyer power.

4.3.4 Bargaining Power of Suppliers

Suppliers can exercise power in an industry by threatening to raise prices or reducing the quality of purchased goods and services. This can happen in the case of a monopolist or the market is oligopolistic. In an industry where suppliers are strong they can drastically reduce a firm's profitability. In the airline industry suppliers exert their power on various aspects such as payment terms for goods delivered, the service levels offered, location of their business which can substantially increase the cost of supplies as well as the sales contract terms between them and the airlines. The airlines ability to survive will to an extent be determined by the power of the suppliers in that market. The following is the scenario in Kenya as revealed by the findings.

Table 13(a) – Bargaining Power of suppliers

Rate your power over suppliers in respect to:	V. High	High	Moderate	Low	Negligible	Total
Payment terms	4	7	15	2	1	29
Service levels	6	13	10	0	0	29
Their Location	2	8	10	5	4	29
Sales Contracts	3	15	6	2	3	29
Negative supplier effect on profitability		6	10	8	5	29
Airline influence over suppliers	2	16	5	3	3	29

The items rated as high to very high in regard to the airline power over suppliers included the service levels offered (19 or 65%) and sales contracts entered between the two parties (18 or 62%).

However the overall negative effect of supplier influence on profitability was scored mainly between moderate and low (18 or 62%) while overall airline on suppliers was rated heavily on the high to very high scale (18 or 62%).

Table 13 (b) – Bargaining power of Suppliers Mean & Mode score

Rate your power over suppliers on the following		
Item	**Mean**	**Mode**
Payment terms	3.5	3.0
Service Levels	3.8	4.0
Their Location	3.0	4.0
Sales contracts	3.8	4.0
Supplier Influence		
Overall negative influence on profitability	2.7	2.0
Overall airline influence over suppliers	3.4	4.0

On the mean scores, airline influence over suppliers on payment terms, service levels, their location and sales contract terms were all rated above average (over 3.0), and indication that they were highly rated and hence the airline power over suppliers is high. The mode score for the same items were also rated highly (all of them over 3.0), and indication that most of the respondents felt that their power over the suppliers was either high or very high.

On the overall supplier influence over profitability, the mean score was 2.7 meaning the respondents felt it was between moderate and low, while the mode score was 2.0 meaning that it was low. The mean score on the overall influence of airlines over suppliers the mean score was 3.4 while the mode score was 4.0.This means that the respondents felt that their influence was above moderate (mean score 3.4) and most of them scored their influence as high (mode score 4).

From the above analysis it would appear the bargaining power of suppliers over airlines in Kenya is low or weak.

4.3.4 Table 14 - Power of Suppliers

Item	Pearson correlation
Payment terms	.470
Service Levels	.546
Location of business	.066

The factor analysis indicated that supplier power in Kenya is mainly on the service levels they offer the airline industry. This means suppliers can dictate terms to buyers on this aspect, but however not to a great extent, as the Pearson correlation index is not very high (.546).

4.3.5 Threat of Substitutes

In any industry there are substitute products competing against each other for market share. The threat of substitutes is to limit the potential returns by placing a ceiling on the prices firms

in the industry can profitably charge. In the airline industry since the product being offered is air travel, the substitutes are the alternative forms of transport namely road, water and rail transport. Their use by travellers poses a threat to air transport. The extent of that threat (and hence their strength or weakness) is analysed below.

Table 15(a) – Threat of substitutes

Rate the substitutes	Very close	Close	Not close	
Road transport	4	10	14	28
Water transport	0	6	21	27
Rail transport	2	3	22	27

Rate the threat of the substitutes						
Road transport	V. High	High	Moderate	Low	Negligible	Total
Water transport	1	2	7	7	12	29
Water transport	0	1	4	4	20	29
Rail transport	0	2	3	3	20	29
Effect on profitability	1	2	1	6	19	29

The major substitutes were identified as Road, Water and Rail. However most of the respondents rated their threat mostly low to negligible (Road 19 or 66%, Water 24 or 83% and Rail 23 or 79%), meaning that they did not consider them as major substitutes to air transport. This is supported by the fact that their effect on the airlines' profitability was rated as mainly low to negligible by 25 airlines representing 86% of the total airlines studied.

Table 15 (b) – Threat of substitutes Mean and Mode scores

Item	**Mean**	**Mode**
Road	2.2	1
Water transport	1.6	1
Rail transport	1.6	1
Effect on profitability	1.8	1

On the mean score the threat of the three items and their effect on profitability was below 3.0, meaning they were less than moderate. All the items scored 1 on the mode score, meaning the respondents considered them negligible as far as power to substitute airline travel is concerned.

4.3.5 Table 16 – Threat of substitutes

Item	Pearson correlation
Road transport	-.956
Water transport	-.836
Rail transport	-.798

All the substitute means of transport seemed not to pose any threat to airlines in Kenya because the Pearson Correlation was negative. These cannot therefore be used to describe threat of substitute products to the Kenyan airline industry. Therefore it can be adduced that there is really no threat of substitute products in the Kenyan market as far as international airlines are concerned.

4.3.6 The Government Influence

The government, through its various policies and regulations, determines to a great extent business performance in a country. The airline industry in Kenya is no exception and the effect of the some key and relevant policies and their effect on airline business in Kenya has been analysed.

Table 17 (a) –Government Influence

Rate the importance of the following government policies	V. High	High	Moderate	Low	Negligible	Total
Granting of traffic rights	4	8	12	3	2	29
Open skies	4	6	10	7	2	29
Landing charges	6	10	9	3	1	29
Airport charges	2	5	15	4	3	29
Visa charges	3	7	12	4	3	29
Forex policy	4	6	9	5	5	29
Safety & Security	12	9	7	1	0	29
General economic climate	6	8	10	4	1	29
Overall assessment of govt. policies	5	9	13	2	0	29

The bulk of the scores for the many of the variables under government influence were rated as moderate, meaning that their importance was neither high nor low. These items include granting of traffic rights (moderate score was 12 or 41%), open skies (10 0r 35%), airport charges (15 or 52%), visa charges (12 or 41%) and general economic climate (10 or 35%). The overall assessment of the importance of government policies was rated as moderate by 13 airlines, representing 45% of the total, while 5 or 17% rated them as of very high importance, 9 or 31% rated them very high and 2 or 6% rated them as low.

Table 17 (b) –The Government Influence Mean and mode scores

Item	Mean	Mode
Granting of traffic rights	3.3	3
Open skies	3.1	3
Landing charges	3.6	4
Airport charges	3.0	3
Visa charges	3.1	3
Forex policy	3.0	3
Safety & Security	4.1	1
General economic climate	3.5	3
Overall assessment of govt. policies	3.6	3

In the mean scores 8 out of the nine factors or 89% scored above 3.0 but below 4.0, meaning that they felt that the importance of government policies was moderate. Only safety and security was rated above 4.0,meaning that its importance is very high. This can be interpreted as a result of increased safety awareness among airlines following the September 11 World Trade Centre bombing. The overall assessment of government policies was rated at 3.6,meaning that the effect was above average (high) and thus their effect is significant to airlines.

The mode score reveals that most of the items, except landing charges and safety and security, as having a score of 3.0,meaning that most of the respondents rated them as moderate. However, once again most respondents, possibly because of the same reasons given above, scored safety and security as very high.

Table 18 – Government Influence

Item	Pearson correlation
Granting traffic rights	.598
Open skies policy	.568
Landing charges	.701
Airport tax	.039
Visa charges	.156
Forex policy	-.354
Safety & Security	.949

Granting of traffic rights, policies on open skies, landing charges and safety and security issues were the main items that seem to determine Government influence in the market. Therefore it is important for airlines wishing to operate or operating in Kenya must closely understand these aspects of government policy and to what extent they affect their business.

4.4 Relationship between the factors and their variables

To explain the extent to which each factor is explained by the item's loadings or scores, the study employed the use of the method of explained variance. Generally factors with highest percentage of explained variance provide the most parsimonious representation of the items. This means that this factor can be used fairly exclusively to dimension studied i.e. the attractiveness of the Kenyan market to international airlines in Kenya. Therefore the factor with the highest percentage of variance will be taken as the one with the highest relative strength of explaining what airlines consider as important in assessing the attractiveness of the Kenyan market.

The reason is to find out which factor is the most prominent in determining the attractiveness of the Kenyan market, since all the factors cannot have the same influence. Airlines will thus be able to know which factor they should address first when devising their strategies.

Table 19 – Statistical Presentation of the relationship (Explained Variance)

Factor	% of Variance
Barriers to entry	92.6
Rivalry within the Industry	80.9
Threat of Substitutes	92.5
Bargaining power of Buyers	62.4
Bargaining power of Suppliers	73.8
Government Influence	55.6

From the above it can be seen that barriers to entry had the highest percentage of explained variance (92.6%). As a result this factor can be used to determine what aspects really determine the attractiveness or non-attractiveness of the Kenyan market to international airlines.

CHAPTER 5 - SUMMARY AND CONCLUSIONS

5.1 Summary

The primary objective of the study was to assess the level of attractiveness of the Kenyan market to International airlines. The study sought to establish from the current players what they thought about the Kenyan market. The reason for taking this study was because the airline industry has generated a lot of interest because of the constant exit as well as entry of foreign-based carriers into the Kenyan market. The study focused on senior managers/general managers of the airlines. The response rate was 71%, which was considered adequate for the study.

The study found out that three out of the six factors used were rated above average (Mean score of 3.0 and above) meaning they were perceived as strong or very strong (hence making the Kenyan market unattractive) while the rest three were rated as below average, implying that they were felt as weak factors, thus making the Kenyan market attractive. Those found to be strong include barriers to entry, rivalry amongst the existing airlines and the influence of government policies. The factors found to be weak are the bargaining power of buyers, the bargaining power of suppliers and the threat posed by substitute forms of transport.

5.2 Conclusion

This study concludes that the Kenyan market is fairly attractive to international airlines as regards passenger business. It can therefore be said that the level of attractiveness is moderate. This is because out of the six factors studied, three were rated as having high effect on airline operations, meaning that they made the Kenyan market unattractive for international airlines while the rest were rated as having low effect on the business, thus making the market attractive. This contrasting situation seems to explain the continued entry and exit of airlines into the Kenyan market. It may thus be said that those airlines whose operations have been severely affected negatively by the strong factors have had

to pull out, while those exploiting the weak factors to their advantage have remained and continue to thrive.

5.3 Limitations of the Research

This study was not without limitations that included the following:

There was reluctance on the part of some managers to divulge some information citing company policy. This was especially detrimental in cases where the airline has an office in Nairobi that could have provided useful information for the research.

Lack of resources was a major constraint to the study. The researcher had to move from one office to another in person and this needed huge resource outlay in the form of money and time.

There was some lack of general grasp or conception of the issue under study by some respondents. Some found it hard to comprehend the concept of industry attractiveness, so the researcher had to take a lot time explaining.

The study confined market attractiveness to Porter's Model. However this cannot be said to be exhaustive as there could be other factors that can be used to ascertain attractiveness.

The composition of the items or variables under each factor may not have been exhaustive. The study has assumed certain variables to be used under each factor, however these may not be all the variables determining a factor and therefore the dangers of some key factors having been omitted is real. This could make the study to be very representative, as all relevant variables have not been taken into account.

The airline industry is dynamic and subject to changes. What could define attractiveness today may not be applicable in the next few years to come. So the study cannot be said to determine attractiveness in the long-term.

Most of the respondents were from Africa. This means that the views expressed would heavily reflect on those of these carriers, therefore may not be a true reflection of what carriers from different parts of the world would feel about the Kenyan market.

5.4 Suggestions for further research

The researcher feels that the following aspects need further research

A study should be conducted on the Kenyan market on measures necessary to make Kenya a more attractive market than it is at the moment.

The other factors determine attractiveness as far as the airline business in Kenya is concerned have not been fully addressed by the research. The use of Porter's model may not be sufficient to bring out all the factors that determine attractiveness of the Kenyan market. An investigation therefore needs to be done of what factors may determine the attractiveness of the Kenyan market to international airlines use other models.

A more detailed analysis of airlines profitability, market shares and route network may be necessary in order to determine how these aspects have affected the airlines' decision to operate in Kenya.

APPENDIX I

LIST OF AIRLINES

1.Air India
2.Regional Air
3.Air Madagascar
4.Air Malawi
5.Air Mauritius
6.Air Seychelles
7.Air Tanzania
8.Air Zimbabwe
9.British Airways
10.Cameroon Airlines
11.Egypt Air
12.Ethiopian Airlines
13.Emirates
14.El-Al
15.Gulf Air
16.Kenya Airways
17.KLM
18.Pakistan Airlines
19.Royal Swazi
20.Sabena
21.Saudia
22.South African Airways
23.Swissair
24.Aero Zambia
25.Aeroflot
26.Air Botswana
27.Air Burundi
28.Air France
29.Air Namibia
30.Alitalia
31.American Airlines
32.Iran Air
33.Japan Air
34.Lufthansa
35.Olympic
36.Qantas
37.Varig
38.Cathay Pacific
39.Iberia
40.American Airlines
41.Uganda Airlines

Source: Directory of Kenya Association of Travel Agents (KATA) members, 2000

APPENDIX II

LETTER OF INTRODUCTION

BEN MUTIA,
UNIVERSITY OF NAIROBI,
FACULTY OF COMMERCE,
P.O BOX 30197,
NAIROBI.

I am a post-graduate student in the Faculty of Commerce, University of Nairobi .In partial fulfillment of the requirements of the Masters in Business Administration degree (MBA), I am conducting a study entitled AN ASSESMENT OF THE ATTRACTIVENESS OF THE KENYAN MARKET TO INTERNATIONAL AIRLINES .The goal is to find out if International Airlines think the Kenyan market attractive for their operations or not.

Your firm has been selected to form part of this study. To this end, I kindly request for your assistance in completing this questionnaire. Any additional information you feel might be necessary for this study is welcome.

The information and data required is purely for academic purposes only and will be treated in strict confidence. A copy of the research project will be available to your company upon request.

Your assistance will be highly appreciated.

Thank you.

Yours Sincerely,

Ben Mutia
MBA STUDENT

Jackson Maalu
SUPERVISOR

APPENDIX III - DATA ANALYSIS USING SPSS

Barriers to entry

Correlation Matrix[a]

		BARRIERS	STARTUP	ALLIANCE	COSTS	PRICE	GOVT
Correlation	BARRIERS	1.000	.644	.227	.799	.626	.122
	STARTUP	.644	1.000	.357	.815	.341	.629
	ALLIANCE	.227	.357	1.000	.713	.844	.691
	COSTS	.799	.815	.713	1.000	.819	.588
	PRICE	.626	.341	.844	.819	1.000	.411
	GOVT	.122	.629	.691	.588	.411	1.000
	ECONOMY	.036	.462	.643	.511	.362	.371
	AGENTS	-.766	-.095	.218	-.276	-.320	.289
	TECH	.396	.789	.664	.794	.503	.550

Correlation Matrix[a]

		ECONOMY	AGENTS	TECH
Correlation	BARRIERS	.036	-.766	.396
	STARTUP	.462	-.095	.789
	ALLIANCE	.643	.218	.664
	COSTS	.511	-.276	.794
	PRICE	.362	-.320	.503
	GOVT	.371	.289	.550
	ECONOMY	1.000	.578	.901
	AGENTS	.578	1.000	.284
	TECH	.901	.284	1.000

a. This matrix is not positive definite.

Communalities

	Initial	Extraction
BARRIERS	1.000	.961
STARTUP	1.000	.655
ALLIANCE	1.000	.738
COSTS	1.000	.999
PRICE	1.000	.698
GOVT	1.000	.568
ECONOMY	1.000	.816
AGENTS	1.000	.998
TECH	1.000	.883

Extraction Method: Principal Component Analysis.

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.995	55.496	55.496	4.995	55.496	55.496
2	2.322	25.801	81.297	2.322	25.801	81.297
3	.967	10.741	92.038			
4	.717	7.962	100.000			
5	8.221E-16	9.134E-15	100.000			
6	5.032E-16	5.591E-15	100.000			
7	-3.434E-17	-3.816E-16	100.000			
8	-1.272E-16	-1.413E-15	100.000			
9	-2.942E-16	-3.269E-15	100.000			

Extraction Method: Principal Component Analysis.

Total Variance Explained

Component	Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %
1	4.445	49.386	49.386
2	2.872	31.912	81.297
3			
4			
5			
6			
7			
8			
9			

Extraction Method: Principal Component Analysis.

Component Matrix[a]

	Component	
	1	2
COSTS	.962	-.271
TECH	.896	.281
ALLIANCE	.824	.244
STARTUP	.801	-.115
PRICE	.783	-.292
GOVT	.697	.289
ECONOMY	.691	.582
AGENTS		.999
BARRIERS	.609	-.769

Extraction Method: Principal Component Analysis.
a. 2 components extracted.

Component Score Coefficient Matrix

	Component	
	1	2
BARRIERS	-.042	.350
STARTUP	.121	.117
ALLIANCE	.195	-.019
COSTS	.119	.192
PRICE	.083	.183
GOVT	.181	-.047
ECONOMY	.237	-.161
AGENTS	.194	-.384
TECH	.215	-.026

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

Component Scores.

Threat of Competiton

Correlation Matrix[a]

		SCORE1	PRIC	PROMO	DIST	PROD	SERVIC
Correlation	SCORE1	1.000	.998	.882	.870	.984	.984
	PRIC	.998	1.000	.889	.843	.988	.988
	PROMO	.882	.889	1.000	.833	.824	.824
	DIST	.870	.843	.833	1.000	.779	.779
	PROD	.984	.988	.824	.779	1.000	1.000
	SERVIC	.984	.988	.824	.779	1.000	1.000
	INFL	.936	.914	.782	.952	.879	.879
	EQP	.882	.889	1.000	.833	.824	.824
	ECON	.137	.107	.398	.550	-.039	-.039

Correlation Matrix[a]

		INFL	EQP	ECON
Correlation	SCORE1	.936	.882	.137
	PRIC	.914	.889	.107
	PROMO	.782	1.000	.398
	DIST	.952	.833	.550
	PROD	.879	.824	-.039
	SERVIC	.879	.824	-.039
	INFL	1.000	.782	.345
	EQP	.782	1.000	.398
	ECON	.345	.398	1.000

a. This matrix is not positive definite.

Communalities

	Initial	Extraction
SCORE1	1.000	.997
PRIC	1.000	.998
PROMO	1.000	.893
DIST	1.000	.937
PROD	1.000	.999
SERVIC	1.000	.999
INFL	1.000	.892
EQP	1.000	.893
ECON	1.000	.996

Extraction Method: Principal Component Analysis.

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	7.284	80.934	80.934	7.284	80.934	80.934
2	1.321	14.675	95.609	1.321	14.675	95.609
3	.372	4.139	99.747			
4	2.274E-02	.253	100.000			
5	8.164E-16	9.071E-15	100.000			
6	1.470E-16	1.633E-15	100.000			
7	3.108E-18	3.453E-17	100.000			
8	-2.267E-17	-2.519E-16	100.000			
9	-4.334E-16	-4.816E-15	100.000			

Extraction Method: Principal Component Analysis.

Total Variance Explained

Component	Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %
1	6.876	76.396	76.396
2	1.729	19.212	95.609
3			
4			
5			
6			
7			
8			
9			

Extraction Method: Principal Component Analysis.

Component Matrix[a]

	Component	
	1	2
SCORE1	.988	-.145
PRIC	.984	-.175
PROD	.948	-.316
SERVIC	.948	-.316
INFL	.942	
PROMO	.931	.160
EQP	.931	.160
DIST	.918	.307
ECON	.276	.959

Extraction Method: Principal Component Analysis.

a. 2 components extracted.

Component Score Coefficient Matrix

	Component	
	1	2
SCORE1	.160	-.070
PRIC	.165	-.092
PROMO	.092	.150
DIST	.061	.257
PROD	.188	-.197
SERVIC	.188	-.197
INFL	.110	.087
EQP	.092	.150
ECON	-.153	.711

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

Component Scores.

Bargaining Power of Buyers

Correlation Matrix[a]

		SCORE2	PRICING	DISTRI	INFLY	ECOMM	NEW
Correlation	SCORE2	1.000	.590	-.171	.904	-.328	.000
	PRICING	.590	1.000	.646	.761	-.035	.781
	DISTRI	-.171	.646	1.000	.000	.549	.924
	INFLY	.904	.761	.000	1.000	-.519	.263
	ECOMM	-.328	-.035	.549	-.519	1.000	.299
	NEW	.000	.781	.924	.263	.299	1.000
	TERMS	.069	.751	.956	.177	.581	.920
	SCHED	.912	.617	.068	.736	.088	.150
	FARES	.296	.914	.829	.477	.141	.834
	FLIGHTS	.292	.930	.769	.566	-.057	.867
	TKT	.337	.951	.765	.598	-.040	.875
	EQUIP	.648	.944	.436	.861	-.350	.618

Correlation Matrix[a]

		TERMS	SCHED	FARES	FLIGHTS	TKT	EQUIP
Correlation	SCORE2	.069	.912	.296	.292	.337	.648
	PRICING	.751	.617	.914	.930	.951	.944
	DISTRI	.956	.068	.829	.769	.765	.436
	INFLY	.177	.736	.477	.566	.598	.861
	ECOMM	.581	.088	.141	-.057	-.040	-.350
	NEW	.920	.150	.834	.867	.875	.618
	TERMS	1.000	.337	.839	.766	.783	.513
	SCHED	.337	1.000	.376	.293	.349	.539
	FARES	.839	.376	1.000	.961	.960	.834
	FLIGHTS	.766	.293	.961	1.000	.997	.898
	TKT	.783	.349	.960	.997	1.000	.908
	EQUIP	.513	.539	.834	.898	.908	1.000

a. This matrix is not positive definite.

Communalities

	Initial	Extraction
SCORE2	1.000	1.000
PRICING	1.000	1.000
DISTRI	1.000	.999
INFLY	1.000	.984
ECOMM	1.000	.998
NEW	1.000	.935
TERMS	1.000	.995
SCHED	1.000	1.000
FARES	1.000	.944
FLIGHTS	1.000	.997
TKT	1.000	1.000
EQUIP	1.000	.997

Extraction Method: Principal Component Analysis.

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	7.498	62.485	62.485	7.498	62.485	62.485
2	3.102	25.849	88.335	3.102	25.849	88.335
3	1.249	10.409	98.743	1.249	10.409	98.743
4	.151	1.257	100.000			
5	3.107E-16	2.589E-15	100.000			
6	1.070E-16	8.917E-16	100.000			
7	5.458E-17	4.548E-16	100.000			
8	-1.239E-18	-1.033E-17	100.000			
9	-6.018E-17	-5.015E-16	100.000			
10	-1.642E-16	-1.368E-15	100.000			
11	-4.034E-16	-3.362E-15	100.000			
12	-1.105E-15	-9.206E-15	100.000			

Extraction Method: Principal Component Analysis.

Total Variance Explained

Component	Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %
1	6.567	54.729	54.729
2	3.355	27.958	82.687
3	1.927	16.057	98.743
4			
5			
6			
7			
8			
9			
10			
11			
12			

Extraction Method: Principal Component Analysis.

Component Matrix[a]

	Component		
	1	2	3
PRICING	.989	-.147	
TKT	.976		-.210
FLIGHTS	.960		-.262
FARES	.955	.164	
EQUIP	.907	-.363	-.208
NEW	.853	.445	
TERMS	.827	.500	.249
DISTRI	.751	.659	
SCORE2	.469	-.811	.349
INFLY	.657	-.743	
ECOMM		.732	.678
SCHED	.531	-.533	.658

Extraction Method: Principal Component Analysis.

a. 3 components extracted.

Component Score Coefficient Matrix

	Component		
	1	2	3
SCORE2	-.105	.368	.065
PRICING	.099	.099	-.014
DISTRI	.155	-.097	.150
INFLY	.002	.204	-.153
ECOMM	-.058	.128	.575
NEW	.172	-.098	.025
TERMS	.101	.039	.257
SCHED	-.133	.441	.317
FARES	.147	-.013	-.010
FLIGHTS	.180	-.079	-.150
TKT	.169	-.050	-.121
EQUIP	.114	.046	-.202

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

Component Scores.

Bargaining Power of Suppliers

Correlation Matrix[a]

		SCORE3	PAY	SERVICE	LOCAT	SALES
Correlation	SCORE3	1.000	.470	.546	.066	.545
	PAY	.470	1.000	.768	.662	.706
	SERVICE	.546	.768	1.000	.871	.993
	LOCAT	.066	.662	.871	1.000	.858
	SALES	.545	.706	.993	.858	1.000

a. This matrix is not positive definite.

Communalities

	Initial	Extraction
SCORE3	1.000	.321
PAY	1.000	.716
SERVICE	1.000	.982
LOCAT	1.000	.727
SALES	1.000	.947

Extraction Method: Principal Component Analysis.

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.693	73.855	73.855	3.693	73.855	73.855
2	.943	18.856	92.710			
3	.359	7.184	99.895			
4	5.272E-03	.105	100.000			
5	2.746E-16	5.491E-15	100.000			

Extraction Method: Principal Component Analysis.

Component Score Coefficient Matrix

	Component
	1
SCORE3	.153
PAY	.229
SERVICE	.268
LOCAT	.231
SALES	.264

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

Component Scores.

Threat of competiton

Correlation Matrix

		SCORE4	ROAD	SEA	RAIL
Correlation	SCORE4	1.000	-.956	-.836	-.798
	ROAD	-.956	1.000	.923	.894
	SEA	-.836	.923	1.000	.996
	RAIL	-.798	.894	.996	1.000

Communalities

	Initial	Extraction
SCORE4	1.000	.869
ROAD	1.000	.961
SEA	1.000	.953
RAIL	1.000	.920

Extraction Method: Principal Component Analysis.

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.703	92.568	92.568	3.703	92.568	92.568
2	.271	6.773	99.341			
3	2.475E-02	.619	99.960			
4	1.587E-03	3.968E-02	100.000			

Extraction Method: Principal Component Analysis.

Component Matrix[a]

	Component
	1
ROAD	.980
SEA	.976
RAIL	.959
SCORE4	-.932

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

Component Score Coefficient Matrix

	Component
	1
SCORE4	-.252
ROAD	.265
SEA	.264
RAIL	.259

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

Component Scores.

Component Score Covariance Matrix

Component	1
1	1.000

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

Component Scores.

The Government Influence

Correlation Matrix[a]

		SCORE5	TRAFFIC	OPEN	LANDING	AIRPORT	VISA
Correlation	SCORE5	1.000	.598	.568	.701	.039	.156
	TRAFFIC	.598	1.000	.418	.615	.616	.578
	OPEN	.568	.418	1.000	.549	.207	.345
	LANDING	.701	.615	.549	1.000	.657	.778
	AIRPORT	.039	.616	.207	.657	1.000	.975
	VISA	.156	.578	.345	.778	.975	1.000
	FOREX	-.354	.472	-.315	.117	.780	.623
	SAFE	.949	.473	.288	.608	-.073	.025
	GENERAL	.658	.798	.473	.956	.773	.835

Correlation Matrix[a]

		FOREX	SAFE	GENERAL
Correlation	SCORE5	-.354	.949	.658
	TRAFFIC	.472	.473	.798
	OPEN	-.315	.288	.473
	LANDING	.117	.608	.956
	AIRPORT	.780	-.073	.773
	VISA	.623	.025	.835
	FOREX	1.000	-.357	.349
	SAFE	-.357	1.000	.561
	GENERAL	.349	.561	1.000

a. This matrix is not positive definite.

Covariance Matrix[a]

a. This matrix is not positive definite.

Communalities

	Initial	Extraction
SCORE5	1.000	.974
TRAFFIC	1.000	.708
OPEN	1.000	.462
LANDING	1.000	.900
AIRPORT	1.000	.989
VISA	1.000	.927
FOREX	1.000	.883
SAFE	1.000	.829
GENERAL	1.000	.985

Extraction Method: Principal Component Analysis.

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.004	55.598	55.598	5.004	55.598	55.598
2	2.653	29.480	85.078	2.653	29.480	85.078
3	.849	9.433	94.511			
4	.494	5.489	100.000			
5	3.027E-16	3.364E-15	100.000			
6	6.748E-17	7.498E-16	100.000			
7	-6.324E-17	-7.026E-16	100.000			
8	-1.156E-16	-1.285E-15	100.000			
9	-3.876E-16	-4.307E-15	100.000			

Extraction Method: Principal Component Analysis.

Total Variance Explained

Component	Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %
1	3.929	43.650	43.650
2	3.729	41.428	85.078
3			
4			
5			
6			
7			
8			
9			

Extraction Method: Principal Component Analysis.

Component Matrix[a]

	Component	
	1	2
GENERAL	.993	
LANDING	.938	-.144
TRAFFIC	.841	
VISA	.828	.492
AIRPORT	.768	.632
OPEN	.551	-.397
FOREX	.341	.876
SAFE	.540	-.733
SCORE5	.668	-.726

Extraction Method: Principal Component Analysis.
a. 2 components extracted.

Component Score Coefficient Matrix

	Component	
	1	2
SCORE5	-.087	.292
TRAFFIC	.133	.103
OPEN	-.020	.185
LANDING	.101	.167
AIRPORT	.274	-.072
VISA	.247	-.025
FOREX	.273	-.197
SAFE	-.107	.277
GENERAL	.149	.131

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

Component Scores.

QUESTIONNAIRE

1). Company Ownership Local { } Foreign{ } Both{ }

2). Origin of carrier African { } Europe { } Asia { } Others(Specify) { }

3). Number of employees Local{ } Foreign { } Total { }

4) Year your operations started in Kenya { }

5). Number of route(s) operated { }

6) Main destination(s) from Kenya_____

7) Weekly frequency into/out of Kenya{ }

8). Type of Aircraft(s) used e.g. Airbus, Boeing _____

9). Approximate Annual Turnover in USD in Kenya_____

10). How many airlines were there in your route(s) when you started operations? { }

11). How many have entered since then? { }

12). Do you think there are still possibilities of new entrants coming in? Yes { } No { }

13). How would you rate the following aspects as being barriers to entry into the industry in Kenya? Tick as appropriate.

	V. High	High	Moderate	Low	Negligible
a) Start-up costs	{ }	{ }	{ }	{ }	{ }
b) Alliances by competitors	{ }	{ }	{ }	{ }	{ }
c) High operating costs	{ }	{ }	{ }	{ }	{ }
d) Price wars	{ }	{ }	{ }	{ }	{ }
e) Government regulations	{ }	{ }	{ }	{ }	{ }
f) Economies of scale	{ }	{ }	{ }	{ }	{ }
g) Access to travel agents	{ }	{ }	{ }	{ }	{ }
h) Technology	{ }	{ }	{ }	{ }	{ }

14) Would you say new entrants are a big threat to your profitability? Yes { } No { }

15) To what extent can you say they have reduced profitability?

V. High	High	Moderate	Low	Negligible
{ }	{ }	{ }	{ }	{ }

16) Your overall assessment of entry barriers into the industry in Kenya

V. High	High	Moderate	Low	Negligible
{ }	{ }	{ }	{ }	{ }

17). How would you rate the continued threat of entry by new operators?

V. High	High	Moderate	Low	Negligible
{ }	{ }	{ }	{ }	{ }

18) Do you think competition is high in the industry? Yes { } No { }

19) How would you rate the intensity of competition in the industry?

V. High	High	Moderate	Low	Negligible
{ }	{ }	{ }	{ }	{ }

20). Which of the following strategies used by your competitors? Tick as appropriate.

a) Pricing/Fare { }

b) Promotion and advertising { }

c) In-flight product enhancement { }

d) Superior equipment (aircrafts) { }

e) Better flight connectivity { }

f) Use of e-commerce { }

21). Which strategy (ies) do you mostly apply so as to beat competition?

a) Pricing { }

b) Promotion { }

c) Distribution { }

d) Product enhancement { }

e) Customer service { }

f) E-commerce { }

g) Alliances and Partnerships { }

22) Has competition affected your performance in Kenya negatively? Yes{ }No{ }

23) If Yes, how would you rate the effect of competition on your profitability?

V. High	High	Moderate	Low	Negligible
{ }	{ }	{ }	{ }	{ }

24) What is your overall assessment of competition in Kenya?

V. High	High	Moderate	Low	Negligible
{ }	{ }	{ }	{ }	{ }

25). Do you think customers/travelers exercise powers over you? Yes { } No { }

26). To what extent do you think customer (traveler) tastes/preferences have influenced your decision on the following?

	V. High	High	Moderate	Low	Negligible
a) Pricing decisions	{ }	{ }	{ }	{ }	{ }
b) Distribution/Location	{ }	{ }	{ }	{ }	{ }
c) In-flight service	{ }	{ }	{ }	{ }	{ }
d) Adoption of e-commerce	{ }	{ }	{ }	{ }	{ }
e) New product development	{ }	{ }	{ }	{ }	{ }
f) Terms of ticket sales	{ }	{ }	{ }	{ }	{ }
g) Flight scheduling	{ }	{ }	{ }	{ }	{ }

27). Do you think you have some powers over your clients (travelers)?Yes { } No { }

28). Please rate your power over customers/travelers on following aspects?

	Very High	High	Moderate	Low	Negligible
a) Fares charged	{ }	{ }	{ }	{ }	{ }
b) Flight Scheduling	{ }	{ }	{ }	{ }	{ }
c) Terms of ticket sale	{ }	{ }	{ }	{ }	{ }
d) Type of equipment operated	{ }	{ }	{ }	{ }	{ }

29). How would you agree with the assertion that your buyers exercise a lot of power in your decisions? Strongly{ }Slightly Agree { } Neither{ }Somehow { } Disagree{ }

30). How many suppliers do you deal with on: Fuel { }Catering{ }Ground handling{ }

31). Do you think suppliers exercise powers over you? Yes { } No { }

32). If Yes, how would you rate your influence over your suppliers on the following?

	V.High	High	Moderate	Low	Negligible
a) Payment terms	{ }	{ }	{ }	{ }	{ }
b) Service Levels	{ }	{ }	{ }	{ }	{ }
c) Business Location	{ }	{ }	{ }	{ }	{ }
d) Sales contracts	{ }	{ }	{ }	{ }	{ }

33) Do you think supplier actions have an effect on your profitability? Yes { } No { }

34) Is the effect positive or negative? _____

35) Please rate the negative supplier effect on your profitability

V. High	High	Moderate	Low	Negligible
{ }	{ }	{ }	{ }	{ }

36) How would you rate your power over suppliers?

V. High	High	Moderate	Low	Negligible
{ }	{ }	{ }	{ }	{ }

37). Of the following forms of transport, please rank them in terms of them being substitutes to your product? Very close-1 Moderate -2 Not Close –3

Road { }Water { } Rail { }

38). How would rate the threat of these substitutes to your firm's profitability?

	V. High	High	Moderate	Low	Negligible
Road	{ }	{ }	{ }	{ }	{ }
Sea	{ }	{ }	{ }	{ }	{ }
Rail	{ }	{ }	{ }	{ }	{ }

39) Has the presence of these substitutes affected the prices you charge? Yes{ } No{ }

40) Has the presence of substitutes affected your profitability negatively? Yes { } No { }

41) If Yes, has the effect been negative or positive? _____

42) Please rate the effect of Substitutes on the prices you charge

Very High	High	Moderate	Low	Negligible
{ }	{ }	{ }	{ }	{ }

43). Please rate the effect of substitute transport on your profitability?

Very High	High	Moderate	Low	Negligible
{ }	{ }	{ }	{ }	{ }

44). Do you think government policies affect your operations in Kenya? Yes{ } No{ }

45). If Yes, is the effect negative or positive? _____

46). How would you rate the effect following aspects of government policies on your company operations?

	Very High	High	Moderate	Low	Negligible
a) Granting of traffic rights	{ }	{ }	{ }	{ }	{ }
b) Open skies policy	{ }	{ }	{ }	{ }	{ }
c) Landing charges	{ }	{ }	{ }	{ }	{ }
d) Airport Tax	{ }	{ }	{ }	{ }	{ }
e) Visa charges	{ }	{ }	{ }	{ }	{ }
f) Foreign exchange policy	{ }	{ }	{ }	{ }	{ }
g) Safety and Security	{ }	{ }	{ }	{ }	{ }
h) General economic climate	{ }	{ }	{ }	{ }	{ }

47) Overall, how would you rate the effect government policy in the industry?

V. High	High	Moderate	Low	Negligible
{ }	{ }	{ }	{ }	{ }

48) What general constraints do you face in your operations in Kenya? Tick as appropriate

a) Lack of equipment/aircrafts { }

b) Poor Infrastructure { }

c) Insecurity { }

d) Poor state of the Economy { }

e) Lack of skilled personnel { }

f) Low purchasing power { }

49) Does any of the following issues/factors play a key role in your decision to operate in Kenya? If yes, please tick as appropriate

a) Tourist attractions { }

b) Economic liberalization { }

c) Good Airport facilities { }

d) Presence of expatriates { }

e) The Nairobi Hub { }

f) Stable political climate { }

50). Please rank the factors below in order of how you feel they affect Airline industry performance in Kenya.1-Most important 6-Least Important

Barriers to entry into the Industry { }

Rivalry among competitors in the Industry { }

Power of buyers/clients/travelers { }

Power of Suppliers { }

Threat of substitute products e.g. Rail, Road, Water { }

The Government policies in the Industry { }

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