

**A SURVEY OF THE USE OF COMPETITIVE
INTELLIGENCE SYSTEMS
IN THE KENYAN PHARMACEUTICAL INDUSTRY**

**BY
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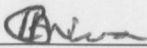
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**A Research project submitted in partial fulfillment of the requirements for the
award of Master of Business Administration (MBA), Faculty of Commerce,
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This project is my original work and has not been submitted for a degree in any other university.

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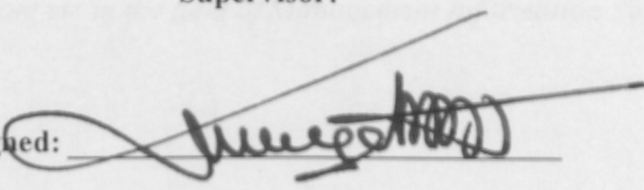
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ABSTRACT

The objectives of this study were to establish the level of awareness of competitive intelligence systems among Kenyan pharmaceutical suppliers, and to establish whether competitive intelligence or competitive information (CI) is used in formulating competitive strategy. Searches through literature revealed that in western countries, the use of CI in competitive strategy formulation is a common practice. This study attempted to determine the practice among Kenyan firms in the pharmaceutical industry.

A questionnaire was used to collect information from pharmaceutical supplier firms who gave information on their understanding and use of competitive strategy formulation and competitive analysis.

The results showed that nearly all companies have a competitive strategy and undertake some form of competitive analysis, which is done mostly by the marketing function.

Most companies do not have an effective management information system for the collection, analysis and dissemination of competitive information, and where such a system was available, it was limited in capacity.

These results should however be interpreted in light of the limitations of the study, chiefly the low response rate of 37%.

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CHAPTER ONE : INTRODUCTION

1.1 BACKGROUND

Modern business has become more complex and challenging over time. Change in today's world is no longer slow and steady, but rapid and unpredictable. Several trends have arisen in the twentieth century and their effects continue to be felt in this new century. They include, among others:

i) The rise of the global economy

This is the era of globalisation where companies trade globally and competition is no longer local or national but international. In developing countries, globalisation and liberalisation of their markets has led to severe competition for local businesses with the influx of a variety of imported and often cheaper goods. Domestic businesses are no longer protected and hence profits are uncertain.

ii) Rapid technological change has led to growth of new industries and products.

iii) The increasing income gap between the richer developed countries and the poorer developing countries of Asia, Africa and South America.

iv) The rise of regional trade blocs such as COMESA, the European Union

v) Industry consolidation leading to fewer but more powerful competitors via mergers and acquisitions, etc.

Companies are forced to adapt to these changes in their environment faster than ever before, in order to survive. They must develop strategies that will enable them to conduct their business and achieve their targets, as well as to respond to the changes in the environment. These changes are not just in the broader social, economic, political and

technological environment, but also in the smaller environment containing their customers, suppliers and competitors.

The availability of accurate timely information is a key requirement for proper strategy formulation. A company can be considered to be “held together by the possession of a means for the acquisition, use, retention and transmission of information”, i.e. a modern information system (Radford, 1978). Managers must therefore gain several types of information:

- i) Environmental information – social, political, technological, economic
- ii) Internal information – concerning the internal operations of the company
- iii) Competitive information – concerning the plans and activities of the company’s competitors (Radford, 1978).

The internal information is used for purposes of operational control. The environmental and competitive information together with a summary of internal information provide input to strategic management. This strategic information generally has two uses in the company, first for problem detection (as an early-warning system), and second, the estimation of future courses of action under various decision situations. This strategic information includes (a) current activities in the market and competitive field, (b) pending technological developments and (c) information on possible mergers, joint ventures or acquisitions (Radford, 1978).

Success in competition is said to depend on

- (i) understanding other companies, competitors, collaborators, and suppliers;
- (ii) understanding the changing relationships between competitors and collaborators;

- (iii) exchanging information and communicating with professionals of the same discipline who work in different companies; and
- (iv) knowing what information is secret to the company and what information to share with others outside the company to gain greater benefit (Orma, 1996)

Today's customers are more informed on the variety and quality of products available in the market. As companies battle to survive and grow, competition for customers has intensified. Developing countries generally have smaller markets and lower customer purchasing power than in the developed countries. Companies therefore need to snatch customers and business away from their competition in order to survive (Fletcher and Donaghy, 1994). To retain their customers, and acquire new ones, companies have to monitor the competition and develop strategies to gain and maintain advantage over them. The formulation of Competitive strategy requires competitive information provided by the process of Competitive Intelligence.

Competitive Intelligence (CI) has been described as "a process of gathering actionable information about competitors and applying it to short- and long - term strategic planning" (Attaway, 1999). Competitor information is detailed information about the characteristics of competitors, their marketing strategies, and any innovative or unconventional actions that they may undertake (Radford, 1978). CI enables an organisation to stay ahead of its competitors by providing information for strategic decision-making and planning, providing early warning of opportunities and threats (e.g. changes in legislation), and by increasing knowledge about the market, technology and the actions of the government.

A competitor may be an organisation offering the same or a similar product or service currently or one that could offer the same or a similar product or service in future. In the pharmaceutical industry, the same product would be a branded or plain generic of the drug, while a similar product would be another drug with the same effect.

Worldwide, CI is growing in importance. A study by The Futures Group shows that 82% of companies with revenues of more than \$10 billion have an organised CI system (Von Hoffman, 1999). Another study conducted by Bernhardt mentioned in his book on CI showed that from a sampling of Financial Times 500 companies in France, Germany, Great Britain, Italy, the Netherlands and Switzerland, 55% of respondents used a lot of competitor information in formulating strategy, while 70% of respondents said that top executives were the main users of CI (Bernhardt, 1993).

It has been said that every organisation needs competitors to promote creative thinking and to prevent the organisation from becoming lazy and ineffective (Hussey and Jenster, 1999). By gaining knowledge of its competitors, a company is able to predict their moves, exploit their weaknesses and undermine their strengths. Competitive analysis helps not only in formulating strategy, but also in corporate finance, marketing, security analysis and many other areas of business (Porter, 1980).

1.2 STATEMENT OF THE PROBLEM

The Kenyan Pharmaceutical industry is supplied with drugs sourced from pharmaceutical importers and manufacturers. A local pharmaceutical supplier faces a lot of competition from local manufacturers and importers of generic equivalents of his products, substitute drugs as well as possible parallel importation of his products.

The Kenyan economy has been in decline for several years. A Central Bank of Kenya report states that real GDP in Kenya declined by 0.3% in 2000 compared with 1.4% growth in 1999, and the GDP declined by 0.2% in the year up to March 2001. This decline is attributed to prolonged drought from 1998 to 2000, poor infrastructure, and low aggregate demand among other factors. This in turn was reflected in a decline in investment and savings.

This economic decline has helped to reduce the purchasing power of most Kenyans who are therefore clamouring for access to cheaper healthcare, including drugs. This has been seen with the growing HIV/AIDS problem in the country where public outcry against the high cost of AIDS drugs has prompted the introduction into Parliament and passing of changes to the Industrial Property Bill to allow parallel importation of cheaper generic AIDS drugs. This Bill will however also affect the industry in that anyone who can supply any drug at a price cheaper than the authorised importer may import and sell it (Industrial Property Bill, 2001). Drugs are under patent for twenty years. Once the patent ends, any other supplier may manufacture or import the generic equivalent of the drug. This naturally reduces the sales of top brands once their patent ends. It has been noted that generic drug prices are well below brand drug prices, and that brand drugs lose up to 25% of their market share to cheaper generic products in the first year generic

competition enters, in western countries (Nogues, 1990). Major reductions in brand drug prices are the norm after a drug patent expires. The presence of generics makes the market for drugs more competitive.

Given the decline in customer purchasing power, the threat of parallel importation, the increasing importation of cheaper generic drugs and the decline of the Government as a major buyer of drugs (due to a slowdown in donor funding), competition among local pharmaceutical companies is increasing in intensity. Mergers between the parent companies of several local suppliers (e.g. Glaxo SmithKline was formed by the recent merger of Glaxo Wellcome and SmithKline Beecham) have made these suppliers more powerful competitors in terms of an increased product range and additional resources.

To survive, local pharmaceutical suppliers must be able to formulate strategies to handle the intense competition. Managers in the pharmaceutical industry therefore need to have a good understanding of their industry and their competitors. Many managers however assume that they know all about their competitors, or that it is not useful to understand their competitors. To others, a formal process for monitoring competitors would take up too much time and resources. Still others believe that competitive information is more relevant to the marketing department than to the organisation as a whole.

Competitive strategy can only be well formulated with the competitive intelligence gained from a Competitor Information or Competitive Intelligence System established in a company. It has been established that in the developed countries, CI has gained in importance over the last few years as an indispensable ally in the strategic planning process. In Kenya, the status of CI has yet to be established. The problem therefore becomes:

Do pharmaceutical suppliers in Kenya maintain Competitive intelligence systems for use in the formulation of Competitive strategy?

1.3 OBJECTIVES OF THE STUDY

The objectives of the study are to:

- i) Establish the level of awareness of Competitive Intelligence systems in the formulation of competitive strategy among the pharmaceutical suppliers in Kenya
- ii) Establish whether Competitive Intelligence is used by managers in the formulation of competitive strategy as part of the strategic planning process

1.4 IMPORTANCE OF THE STUDY

Studies on CI have been conducted in the developed nations and revealed that CI is an important requirement for the formulation of effective competitive strategy. It would be useful to know whether the managers of local companies consider competitive strategy important and whether they obtain CI to aid in their decision-making and strategy formulation.

The study is important to the following:

- i) The pharmaceutical suppliers who will become more aware of changing trends in formulating strategy in their industry

- ii) Researchers who would like to conduct further research into the pharmaceutical industry and/or the field of Competitive intelligence
- iii) Current and potential investors who would like to get a picture of the local pharmaceutical industry

CHAPTER TWO : LITERATURE REVIEW

2.1 DEFINITION OF COMPETITIVE INTELLIGENCE

According to Prescott, a Competitive Intelligence program (CIP) can be defined as follows:

“A continuously evolving integration of both formalised and informal processes by which organisational members assess key trends, emerging discontinuities, the evolution of industry structure, and the capabilities and behaviours of current and potential competitors to assist in maintaining or developing a competitive advantage” (Prescott, 1995).

However, Competitive Intelligence (CI) is also a product as well as a process. While the CI process involves acquiring, analysing and evaluating information about current and potential competitors, the CI product is the end product of the CI process, which is useful information for management decision-making (Von Hoffman, 1999).

CIPs have several characteristics in common, i.e. a focus on the performance and evolution of an industry and the actions or reactions of competitors; collected data is transformed into intelligence to meet the needs of managers; the integration of formal and informal information-gathering networks; CI units handle critical business issues and facilitate organisational renewal (Prescott, 1995).

A Competitive Intelligence System (CIS) is otherwise referred to as a Competitor Information System, which collects data on competitors and transforms it into information structured in terms of strategic business issues (Fletcher and Donaghy, 1994). A strategic issue is a business that is competitor-related, e.g. the capability of the competitor to change its distribution strategy.

A CIS is essential to Competitor Analysis, and like any MIS it enables relevant, topical information about the market and the competition to be collected, stored, retrieved, analysed and communicated to decision-makers (Simkin and Cheng, 1997). This view is argued by Porter in his book *Competitive strategy* and has been supported by other authors such as Wong and Saunders (1996).

CI does not provide perfect information, but it gives adequate information in enough time for a company to know what a competitor will do and therefore choose how to act accordingly, e.g. how to respond to the intended launch of a competitor's new product.

CI helps us to understand the determinants of sustainable competitive advantage, including the basis of competition (the types of assets and internal capabilities backing the competitor's strategy); where the competitor competes (its product markets); who it considers its competitors, including the company undertaking the CI; and what ways it has chosen to compete (e.g. its marketing strategy). CI attempts to provide answers to these questions (Bernhardt, 1993).

2.2 DIFFERENCES BETWEEN COMPETITIVE INTELLIGENCE, MARKET INTELLIGENCE AND ECONOMIC ESPIONAGE

A quotation taken from the U.S. Central Intelligence Agency (CIA) in Bernhardt's book describes intelligence as "the knowledge and foreknowledge of the world around us" (Bernhardt, 1993). While formal intelligence concerns itself with politics and the military, competitive intelligence (CI) evolved from it but is directed towards the formation of strategy and the creation of competitive advantage in an organisation.

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Competitive Intelligence uses legal and ethical methods to gather its information while economic or corporate espionage is the use of illegal means to gather information and as such is a failure of CI (Von Hoffman, 1999). Corporate intelligence becomes illegal when it involves illegal operations that result in the theft of proprietary materials or trade secrets (Attaway, 1999). In the USA, the Economic Espionage Act of 1996 was established to protect American companies against such theft. The spy image of CI is popularised by reporters of the media who are more interested in breaches in ethics (Prescott, 1995) though this trend seems to be changing to regard CI as it should be (Overell, 2001).

CI differs from Market Intelligence and marketing research in that the focus of market research is on ensuring the profitable marketing of a company's products and services while CI covers more than marketing, moving into broader areas of business development (e.g. mergers) and strategic planning. For example, a CI unit may look into a competitor's future plans for specific markets, a competitor's future products, a competitor's alliances, changes in the business unit, etc.

2.3 ORIGIN AND EVOLUTION OF COMPETITIVE INTELLIGENCE

CI evolved from the field of military intelligence and warfare, also receiving input from the fields of political science, organisational theory and strategic management (Bernhardt, 1993). The concepts of foreknowledge and strategy are quite old as evidenced in the two thousand-year old writings of Sun Tzu, a military strategist (Sun Tzu, 1988). His sayings have been applied to organisations in conflict including those competing in the marketplace. Prescott observes that CI has grown over the last twenty years after arising

in North America and Western Europe. He notes that the areas of Marketing, Strategic planning and Library science have contributed in the development of methodologies in CI for collecting and analysing data (Prescott, 1995).

Prescott lists four stages in the evolution of CI based on a combination of five attributes: the degree of sophistication of the formal and informal CI network, the degree of orientation of intelligence towards strategic versus tactical decisions, the importance placed by top management, and the linking of CI to decision-making processes.

In the first stage (pre-1980), the emphasis of CI in companies was on collection of competitive data. Related research was oriented towards marketing intelligence and so its scope was narrow. In the second stage (1980-1987), the emphasis changed to data analysis especially of industries and competitors as popularised by Porter's book *Competitive Strategy*. Literature on CI appeared but was centred mainly on the methodology of CI. CI is currently in the third stage (1988-present) where there is increasing emphasis on strategic use of CI. CI has also branched into counter intelligence, International CI (as companies extend their operations globally) and technological CI (in industries where technology is important, e.g. computers, pharmaceuticals). Literature on CI focuses on the management of CI though research in the field is still rare. Prescott foresees that in future CI will become a core organisational capability as it progresses into the fourth stage and is taught in business schools worldwide.

Unlike European or Japanese companies that have long received governmental support in collecting and disseminating intelligence, American companies are thought to be far less

likely to have a CI function (Westervelt, 1996). However, this is changing with the end of the Cold War, as the American government changes its focus to economic issues.

2.4 HOW DOES COMPETITIVE INTELLIGENCE FIT INTO THE STRATEGIC PLANNING FRAMEWORK?

2.4.1 THE LINK BETWEEN STRATEGIC PLANNING AND COMPETITIVE INTELLIGENCE

According to Pierce and Robinson, the top management in a company design strategic management processes to facilitate the optimal positioning of the company in its competitive environment. These processes enable the company to anticipate environmental change and improve its ability to react to unexpected or competitive demands (Pierce & Robinson, 1997). Strategic management involves several stages: developing the company's mission, converting the mission into performance targets, developing strategies to achieve the targets, implementing the strategies, and then reviewing the company's performance in line with its mission and the changing environment in which it operates (Thompson and Strickland, 1993). Generally strategies are formulated to achieve the company's long-term goals but some strategies are developed in the short term to respond to changes in the environment, e.g. the entry of a new competitor into the market.

Over the last few years, managing strategic change has become very important in companies given the rapidly changing environment affected by the forces of globalisation, liberalisation, etc. Successful companies seek to build a broad portfolio of competitive advantages by instituting continuous learning in their organisations and

building new competitive advantages to out-do their competitors (Hamel and Prahalad, 1990). Managers must continually assess their company's position relative to its competitors, decide on strategies to compete with and then implement those competitive strategies. Competition has become a key driver of strategic decision-making (Bernhardt, 1993).

2.4.2 COMPETITIVE STRATEGY AND CI

Every company in an industry has a competitive strategy. For some, it is developed through a formal planning process and applied company-wide. For others, it tends to be made up as the company moves along, each functional department taking the path it deems best. Naturally, for the second group, the company as a whole may be hindered by the lack of co-ordination between functional strategies.

Competitive strategy has been described as a company's plan to achieve sustainable competitive advantage, over or reducing the edge of, its competitors (Clarke, 1994). It does not aim to destroy the competition. Porter in his book *Competitive Strategy*, gives the four key factors which determine the limits of what a company can successfully do, namely the company's strengths and weaknesses, the personal values of its key decision-makers, the industry's opportunities and threats, and societal expectations. He then goes ahead to give the process used in formulating a competitive strategy, namely:

(i) identifying the current strategy and assumptions held by the business, (ii) analysing the environmental situation of the business (by Industry analysis, Competitor analysis, Societal analysis and the company's assessment of its strengths and weaknesses), and

finally (iii) using the results of the previous stages to come up with strategic alternatives of which the best is chosen to deal with the company's peculiar situation (Porter, 1980).

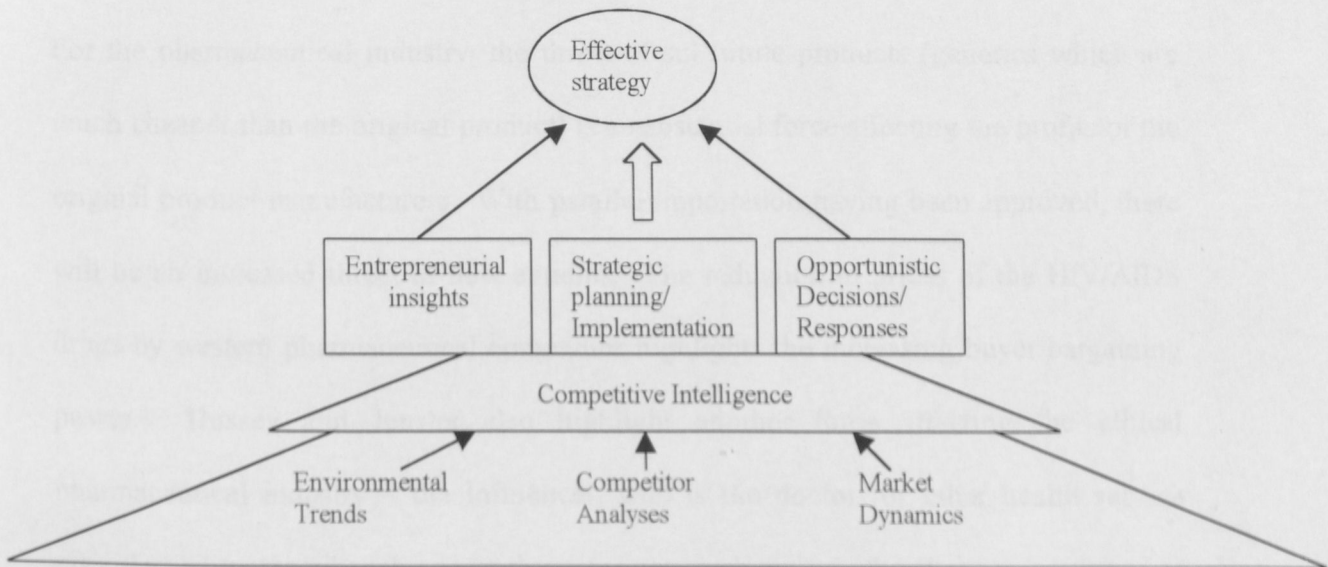


Figure 1: Effective Strategy/Competitive Intelligence (Bernhardt, 1993 pp28. Reprinted from a diagram in the book *Business Competitor Intelligence: Methods for Collecting, Organising and Using Information* by W.L. Sammon, M.A. Kurland and R. Spitalnic, John Wiley & Sons Ltd, Inc. 1984)

Industry and competitor analysis involves the company developing an understanding of several issues:

- i) The chief economic characteristics of the industry
- ii) The driving forces for change in the industry
- iii) The strength of the competitive forces at work in the industry
- iv) The competitive positions of other companies in the industry
- v) Key success factors for the industry
- vi) The long-term attractiveness of the industry (Thompson & Strickland, 1993).

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According to Porter, the intensity of competition in an industry depends on five competitive forces: the Threat of New entrants, the Bargaining power of Suppliers, the Bargaining power of Buyers, the Threat of Substitute products or services, and the Rivalry between existing firms in an industry (Porter, 1980).

For the pharmaceutical industry, the threat of substitute products (generics which are much cheaper than the original product) is a substantial force affecting the profits of the original product manufacturers. With parallel importation having been approved, there will be an increased threat of new entrants. The reduction in prices of the HIV/AIDS drugs by western pharmaceutical companies highlights the increasing buyer bargaining power. Hussey and Jenster also highlight another force affecting the ethical pharmaceutical industry – the Influencer, who is the doctor (or other health service provider) who prescribes the drugs that a patient can buy, and who chooses one brand or generic drug over another.

Companies are required to formulate strategies to protect the firm as much as possible from the five competitive forces and to influence the rules of competition in their favour (Thompson & Strickland, 1993). Managers must also understand how the forces will influence the strategies of their competitors. They should revise their own strategies to accommodate changes in the forces (Bernhardt, 1993).

Porter further identified three broad generic strategies that can be used separately or in combination to gain competitive advantage: Overall Cost leadership (focusing on low cost position), Differentiation (focusing on uniqueness), and Focus (on a particular target, e.g. a customer group).

While these strategies may be pursued on a long-term basis, there are other strategies that can be used to deal with more immediate competitor actions. From interpretations of the writings of Sun Tzu, such strategies include Deterrence (dissuading potential entrants from entering the market due to the way the company will respond), Attack (to weaken a competitor e.g. by getting to market first with a new product), Defence (e.g. retreat from competitor attack) and Collaboration (e.g. alliances) (Hussey and Jenster, 1999).

2.4.3 COMPETITOR ANALYSIS

According to Porter,

“the objective of Competitor analysis is to develop a profile of the nature and success of the likely strategy changes each competitor might make, each competitor’s probable response to the range of feasible strategic moves other firms could initiate, and each competitor’s probable reaction to the array of industry changes and broader environmental shifts that might occur” (Porter, 1980).

This helps a company to know how to position itself competitively. However, he notes that often competitor analysis is not much practised; managers assume that they know all about their competitors, or they spend more effort understanding customers’ buying patterns than understanding their competitors. Other managers believe that it is not possible to understand competitors in detail while others prefer to have only a general understanding of who their competitors are (Wilson, 1994).

There are four components in a competitor analysis: future goals, current strategy, assumptions of the competitor about itself and the industry, and its capabilities (strengths and weaknesses) (Porter, 1980). Knowing a competitor’s capabilities enables a company

to identify more effective attack and defence strategies. A response profile of each significant existing and potential competitor can be built up, offering clues to their likely response to other companies' competitive moves and to environmental changes.

Mackay's 12 P's Competitive profile can also be used to build up a profile of each competitor (Mackay, 1997). It helps a company to know what it does better than its competitors, and vice versa and what it needs to do to get ahead of competitors and to stay there. The 12 P's are Pedigree, Physical scale, Performance as an investment, Pricing, People, Positioning, Plans, Performance as a supplier, Prestige in the business community, Probing for data, Prize fight (them and us), and Post mortem.

Other benefits of Competitor analysis are:

- i) it enables the managers of a company to build consensus on the company's goals and capabilities thus increasing their commitment to the strategies,
- ii) it enables companies to learn from their rivals, and
- iii) it contributes to the successful implementation of a company's strategy (Zahra and Chaples, 1995).

Several techniques are used in competitor analysis, including best practice benchmarking, value chain analysis, constructing competitor profiles, and industry structure analysis.

While some authors e.g. Bernhardt consider CI to be a refinement of the competitor analysis process, other authors including Hussey and Jenster seem to consider CI to be similar to Competitor analysis. Yet other authors consider CI to be a part of Competitor Analysis, e.g. that competitor analysis embodies both CI to collect data on rivals, and the analysis and interpretation of the data (Zahra and Chaples, 1995)

2.5 THE PROCESS OF COMPETITIVE INTELLIGENCE

This process is similar to that used for collecting military intelligence, consisting of the steps of (i) Planning and direction, (ii) Collection of data, (iii) Evaluation of the data, (iv) Analysis of the data, and finally (iv) Dissemination of the information to key decision makers (Bernhardt, 1993). The first step involves determining the intelligence user's information needs because managers rarely know their information needs especially for probabilistic decisions (Fletcher and Donaghy, 1994). This may result in a CIS producing information irrelevant to their needs. CI is costly and time-consuming therefore it is important that managers clearly communicate their intelligence needs to the CI researchers.

Data is collected from several sources including employees (e.g. sales staff), trade associations, internal and external market research, government offices, private and public databases, inspection of competitor products, customers and suppliers, etc. The Evaluation stage involves sorting collected data on basis of its relevance, degree of accuracy required, reliability and consistency between several sources. Analysis means using the bits of information to build a picture of the competitor's strategies by trying to understand what influences the competitor's behaviour and the goals of the competitor's management. The CI product is disseminated to key decision-makers in various forms, e.g. reports, regular newsletters, briefings. It is important that the CI should reach the decision-maker in time.

Managers at different level of the organisation will have different CI needs and therefore receive different CI products. At the corporate level, managers seek strategies to synergise the business units. CI may deal with issues such as

diversification strategies of existing competitors, core competencies of competitors, mergers and acquisitions. At the business unit level, managers seek strategies to create and sustain competitiveness. CI therefore looks at the future plans of competitors, their capabilities, and changes in the competitive environment. At the functional level, each functional manager will have his own CI needs e.g. a Sales manager may want to know the coverage of competitor sales force teams.

There are therefore different types of CI: strategic, tactical, and counter-intelligence. Strategic intelligence is mainly used by corporate and business level managers, while tactical intelligence is mainly operational. Counter-intelligence involves protecting the company's secrets from its competitors (Bernhardt, 1993).

2.6 WHY COMPETITIVE INTELLIGENCE IS NOT COMMON OR FOUND USEFUL

Managers have been known to make assumptions about their competitors as stated in 2.4.3, thus they may not support a CIS. Good CI requires a lot of data input which is not easy to obtain. The data to build good CI rarely comes at one go, but in bits that need to be put together. The process is costly and time-consuming. Waters observes that many senior managers restrict the function of competitive information to marketing, research or senior analysts, thus many CI operations do not provide decision-makers with the information they need. CI should be gathered at all organisational levels (Waters, 2000). Many companies do not have a formal system for competitor analysis, but depend on the perceptions of individual managers from the bits of information they acquire from the environment. Even with a good CI operation, a company may have difficulties defining

what information to collect, who should be responsible for intelligence efforts, and how to disseminate CI in time to the managers who need it (Attaway, 1999).

2.7 THE NEED FOR A FORMAL COMPETITIVE INTELLIGENCE SYSTEM

The process of CI must be organised to be efficient. The set-up of the CIS varies according to the needs of the company, its industry, its staff capabilities and management support. One or several persons become responsible for CI and make sure that it gets done. Top management support ensures the implementation of the CIS and the required use of CI in strategy formulation (Porter, 1980). A formal CIS also ensures good documentation and prevents loss of useful information. With a formal CIS, different types of reports can be produced to cater for the needs of managers at different levels.

2.8 PROPERTIES OF GOOD INTELLIGENCE

The CI product must be relevant to the decisions being made by its user managers, and hence to the strategic needs of the company. It should prompt action, e.g. as an early warning system. It needs to be accurate within acceptable limits, brief, and timely. It should list the information sources and their reliability. It should suggest alternative courses of action and the likely effects of each action (Bernhardt, 1993).

In an article by Ettore, the Futures Group is noted as asking senior managers of client companies what their intelligence requirements are. Replies fall into three categories: strategic decisions, warning issues and key players (Ettore, 1995).

2.9 VALUE/BENEFITS OF CI

CI provides the information managers need in making decisions that will position the company to maximise the value of the capabilities that separate it from its competitors (Bernhardt, 1993). The CI process enables a company to gather and analyse sufficient intelligence in ample time and within satisfactory limits of accuracy, to find out what it needs to know when it needs to know it. A study mentioned by Bernhardt, which was conducted on request of the Society of Competitive Intelligence Professionals (SCIP) among packaged foods, pharmaceutical and telecommunications companies lists various benefits of CI. These indirectly affect bottom-line performance and include improved cross functional relationships, more effective strategic plans, improved knowledge of the company's market and improvements in product quality (Bernhardt, 1993).

CI helps managers to challenge the assumptions they hold about the industry, their competitors and their own company. Because CI helps understand competitor's strengths and weaknesses, this can suggest opportunities and threats to the company that require it to respond. The selection of the best strategic alternative is made considering the likely reaction of key competitors. Understanding future competitive strategy of a competitor can help managers predict emerging threats and opportunities.

2.10 DETAILS OF PREVIOUS STUDIES

Previous local MBA studies tend to concentrate on marketing planning, corporate strategic planning and strategic marketing. Shumbusho noted that at the time of his study (in 1983), many purely Kenyan or majority Government-owned companies had fairly young corporate planning departments. Subsidiaries of multi-national companies

(MNCs) had well-developed planning departments. Most executives in the Kenyan companies realised that they needed to improve their corporate planning. He noted that an organisation that knew more about the competitor than the competitor knew about itself, would compete better (Shumbusho, 1983). A study conducted by Wanjere in 1999 found that of the 31 manufacturing firms studied, 97% monitored their competitors regularly, 84% monitored their competitors' marketing strategies and new entrants, while 71% monitored mergers and acquisitions. Most of companies were therefore consciously monitoring their competitive environment. 45% of these respondents had someone who responsible for converting the analysis of findings into a summary highlighting the main strengths and weaknesses of the company, and in 29% of these, this person was senior and had access to all necessary information. He noted that subsidiaries of MNCs were more involved in practising strategic marketing planning, and that companies in more competitive industries practised it more than those in less competitive ones (Wanjere, 1999). This was somewhat in contrast to the sugar industry where a study by Kassamani revealed that 72% of the respondents in the industry did not know their competitors' strategies or market share (Kassamani, 1999). Their managers felt that there was no need to have intelligence systems. Competition was felt to be mild in the industry (except for the imported sugar) so there was little need for strategic marketing planning given that competition was the main trigger for strategy formulation. The companies had no conscious strategy for survival in a competitive world. This has since been proved given the closure of several sugar factories. None of these studies however concentrated only on Competitive analysis and CI.

A case study by Fletcher and Donaghy showed the process of setting up a CIS in a life assurance company in the UK, which had identified that there was a serious lack of structured pertinent competitor information on which to base its strategic decisions. The CIS was successfully set up though the writers indicated that without a champion in the company, the system would not have been completed or even started. They also specified the need to clarify the strategic issues important to the strategic decision-makers to produce useful information.

2.11 THE GLOBAL PHARMACEUTICAL INDUSTRY

The global pharmaceutical industry is increasingly multinational in scope. Most major research-based companies market their products world-wide. Most of the research and development into new drugs is done in the U.S. followed by Japan. The U.S. is also the world's largest market for pharmaceuticals, accounting for 39.8% of global sales in 1998 (PHRMA, 2000). The second largest consumer is Europe (28.1%) followed by Japan (15.4%), while Africa as a region comes last with only 1.0% of the world pharmaceutical market. The Daily Nation reports that pharmaceutical sales were \$ 3.5 billion in sales for Africa compared to \$169 billion for the US (Daily Nation, 2001). In many European countries and Japan, the government is the largest buyer of drugs, and it uses the power to negotiate directly or to indirectly control the prices of drugs. This prevents the research-based companies from charging a free-market price for their drugs. Given that research is very expensive and time-consuming, many companies tend to continue by making minor improvements on product molecules such that drugs being marketed often have close substitutes.

2.12 THE KENYAN PHARMACEUTICAL INDUSTRY

The Kenyan Pharmaceutical industry consists of pharmaceutical importers and manufacturers who supply the drugs, wholesalers who distribute the drugs, and retail chemists, hospital pharmacies and clinics or nursing homes who dispense the drugs to the patient who is the user.

The licence to import or manufacture a drug is granted by the Pharmacy & Poisons Board of the Ministry of Health under the Pharmacy & Poisons Act (The Pharmacy & Poisons Act, 1989). Apart from the pharmaceutical importer who holds the local licence for a drug, no one else is allowed to import a drug apart from the Government under special circumstances e.g. war. It should be noted that few importers are the patent holders for a drug (and these are the local offices of the multinational pharmaceutical firms); most importers are licensed by the foreign patent holder to distribute a drug in this country. Most drugs available in Kenya are imported as finished products since the local manufacturers are besieged by high costs and taxes on raw materials. However, there are products for whom there is no local licensee or which have been removed from the product lists of multinational companies. Some of these are often brought into the country by wholesalers who have the means to import.

Drugs marketed locally are divided into four main categories:

- i) Original Branded products, i.e. the product from the first company to manufacture and market this particular drug
- ii) Second brands, i.e. the same product from other companies who also brand it
- iii) Imported generics

iv) Locally manufactured generics

Usually, the branded products are more costly than the generic drugs. However, not every branded drug has a generic in this market especially if its patent has not yet expired, while some generics have no original branded product locally available due to the long period since the expiry of the patent and its wide manufacture, e.g. aspirin.

The value of imported finished drugs in 1999 was about \$51 million at C.I.F value while that of imported raw materials was \$11 million at C.I.F value (Image Dynamics, 1999).

Of the finished pharmaceutical products, twenty-four multinational companies imported products worth \$35 million at C.I.F value.

CHAPTER THREE : RESEARCH METHODOLOGY

3.1 POPULATION

The population included all current active pharmaceutical manufacturers and pharmaceutical importers who number ninety-two. The list of these pharmaceutical suppliers was obtained from the Pharmacy & Poisons Board. It should be noted that not all importers market their products directly. Some importers merely import for foreign companies who have local offices where the Marketing team is located. In such cases, the researcher targeted this local office which is referred to by the importer as its *principal/agency*. Several importers may sometimes share a principal.

While questionnaires were directed to all the population, previous studies show that not all will respond (the response rate is generally 30 % [Emory, 1985]). The response rate achieved was 37%, which was acceptable.

3.2 RESEARCH DESIGN

Primary data was collected by the administration of a questionnaire to the respondents and personal interviews with some of the respondents were used to gain further insight of how the industry members deal with competition.

3.2 DATA COLLECTION

A copy of the questionnaire used is given in Appendix I. The questionnaire includes both open-ended and closed-ended questions as well as ranking questions with the sections listed below:

Section 1: General questions about the respondent's company

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Section 2: Questions about the respondent's company's understanding of the process of competitive strategy formulation, competitive analysis and competitive intelligence.

Section 3: Questions about the respondent's company's actual status of competitive analysis and competitive intelligence.

The respondents were Marketing managers or equivalent of their respective companies.

The questionnaire was administered personally. The respondents were given the questionnaire to fill and the questionnaires were then collected and analysed. To increase the response rate, follow-up was done by telephone call and/or personal visits made by the researcher. Personal interviews were conducted by the researcher with a good proportion of the respondents so as to obtain any extra information that the respondents may think is relevant to the research, but that would not be captured by the questionnaire. Personal interviews also enabled the interviewer to obtain clarification where answers given to the questionnaire were unclear.

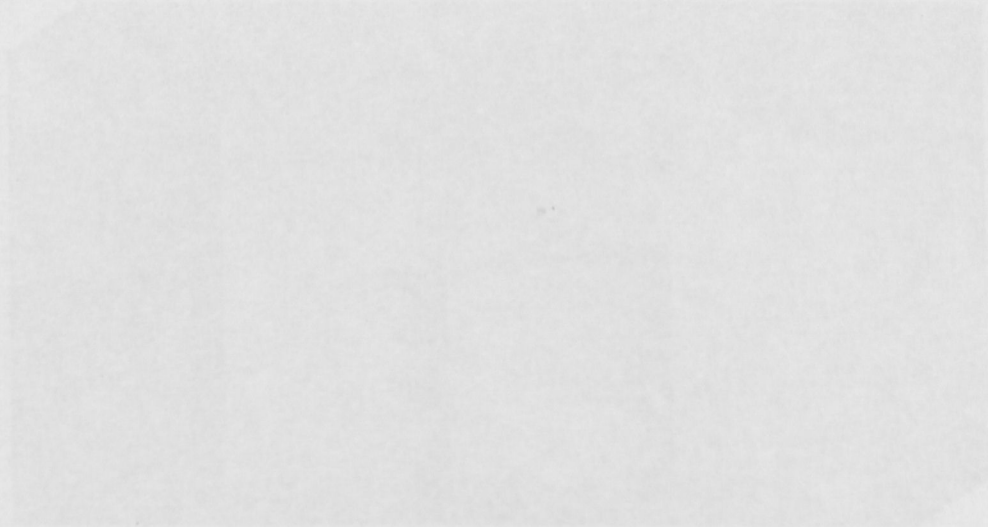
Responses were obtained from 34 companies. Refusals and non-responses were ignored for the data analysis.

3.3 DATA ANALYSIS

Data from the questionnaires were be summarised by the use of percentages and descriptive statistics, and presented in the form of tables and charts. Analysis was done to determine if a relationship exists between variables such as the presence of a competitive strategy and the level at which competitive information is used, and the general factors such as the type of operations of the company and the type of ownership. Key practices in the industry, problems and the level of awareness were identified.

To determine the importance of the factors considered, ranking was used. Factor analysis was used to reduce the variables into a manageable number of factors. The SPSS package was used in data analysis.

Variable	Frequency
Variable 1	20
Variable 2	20
Variable 3	20
Variable 4	20
Total	100



The chart shows that the majority of employees (75%) have been employed for less than 5 years.

Table 4.1: Summary of the data collected from the 100 employees surveyed.

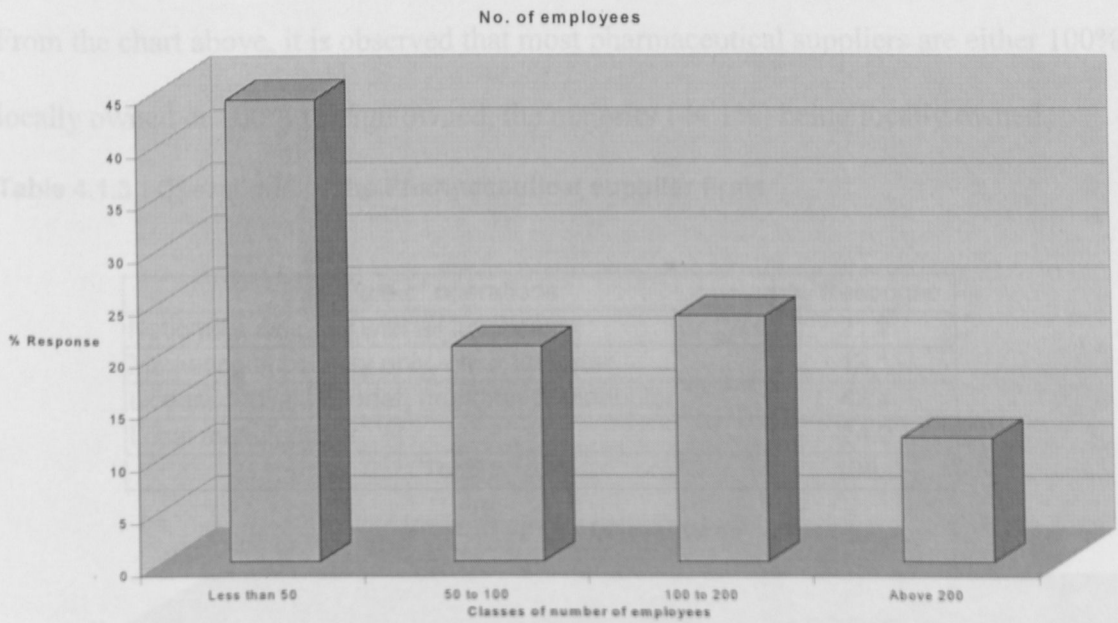
Category	Percentage
Category 1	75%
Category 2	25%

CHAPTER FOUR : DATA ANALYSIS & RESEARCH FINDINGS

4.1 GENERAL INFORMATION

Table 4.1.1 : Profile of the number of employees of the Pharmaceutical supplier firms

No. of employees	% Response
Less than 50	44.1
50 to 100	20.6
100 to 200	23.5
Above 200	11.8
Total	100.0

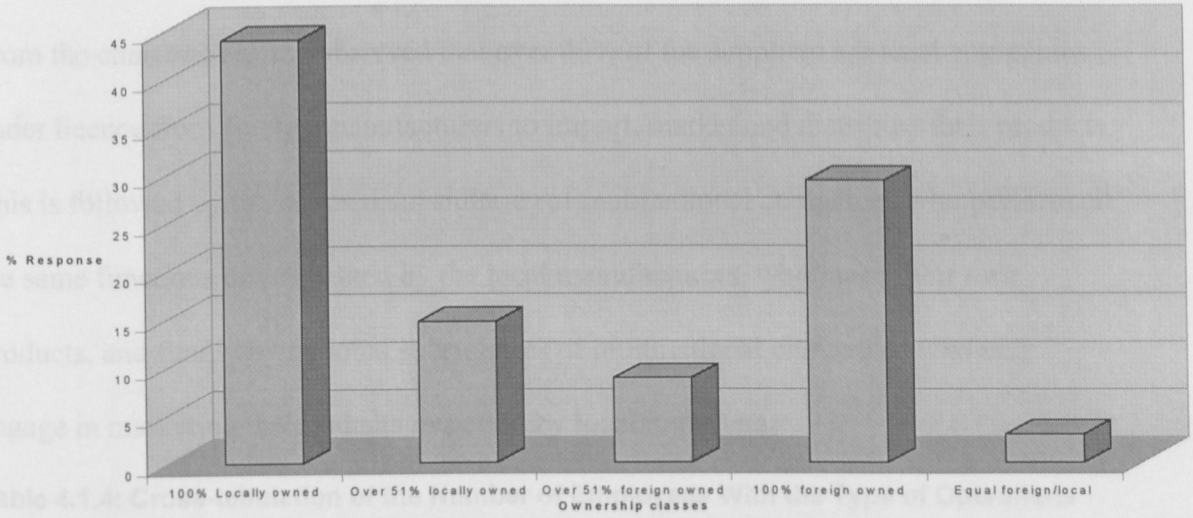


From the chart above, it is observed that most pharmaceutical suppliers have less than 100 employees, the majority (44.1%) having less than 50 employees.

Table 4.1.2 : Profile on the ownership of the Pharmaceutical supplier firms

Ownership	% Response
100% Locally owned	44.1
Over 51% locally owned	14.7
Over 51% foreign owned	8.8
100% foreign owned	29.4
Equal foreign/local	2.9
Total	100.0

Ownership status

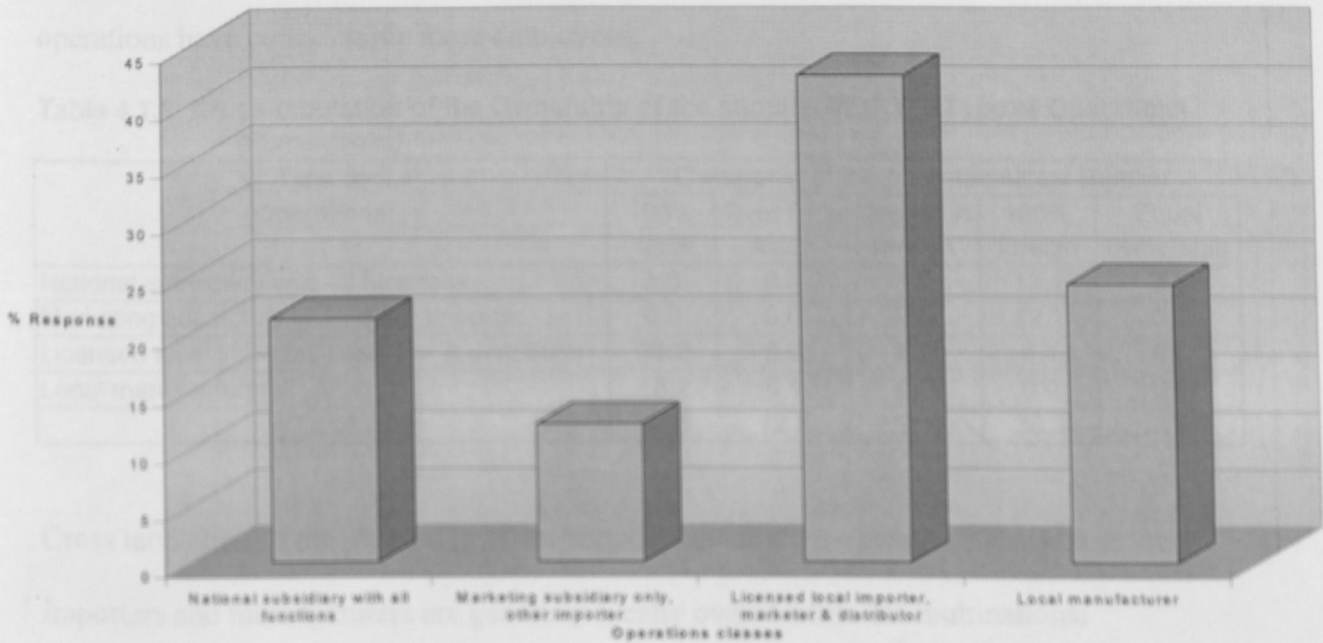


From the chart above, it is observed that most pharmaceutical suppliers are either 100% locally owned or 100% foreign owned, the majority (44.1%) being locally owned.

Table 4.1.3 : Operations of the Pharmaceutical supplier firms

Type of operations	% Response
National subsidiary with all functions	21.2
Marketing subsidiary only, other importer	12.1
Licensed local importer, marketer & distributor	42.4
Local manufacturer	24.2
Total	100.0

Types of Operations



From the chart above, it is observed that over 40% of the suppliers are local companies under licence from foreign manufacturers to import, market and distribute their products. This is followed by the national subsidiaries of multinational companies who perform all the same functions directly, then by the local manufacturers, who make their own products, and finally by national subsidiaries of multinational companies who only engage in marketing the products imported by local importers.

Table 4.1.4: Cross-tabulation of the Number of Employees With the Type of Operations
(Percentages)

Type of Operations	Number of employees			
	Less than 50	50 to 100	100 to 200	Over 200
National subsidiary with all functions	0.0	6.1	9.1	6.0
Marketing subsidiary only, other importer	12.1	0.0	0.0	0.0
Licensed local importer, marketer & distributor	30.3	9.1	3.0	0.0
Local manufacturer	3.0	6.1	9.1	6.1
Total	45.4	21.3	21.2	12.1

Cross tabulation of the number of employees against the operations of the suppliers shows that local importers and companies with only a marketing function mostly have fewer than 50 employees. Local manufacturers and the multinationals with large local operations have considerably more employees.

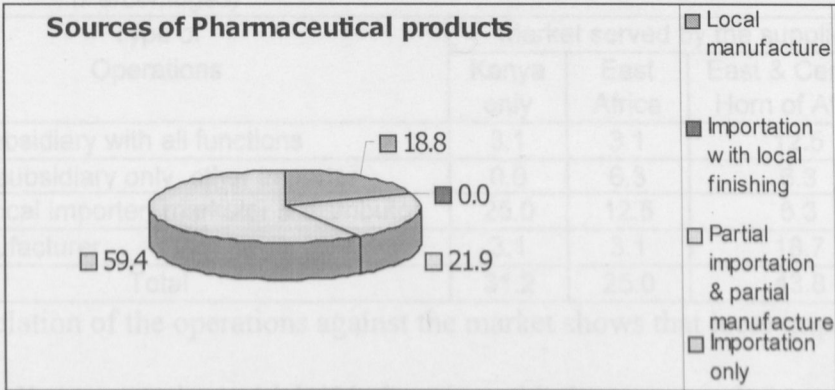
Table 4.1.5: Cross-tabulation of the Ownership of the supplier With the Type of Operations
(Percentages)

Type of Operations	Ownership of the pharmaceutical supplier				
	100% local	Over 51% local	Over 51% foreign	100% foreign	Equal ownership
National subsidiary with all functions	3.0	0.0	3.0	12.1	3.0
Marketing subsidiary only, other importer	0.0	0.0	0.0	12.1	0.0
Licensed local importer, marketer & distributor	24.2	6.0	6.1	6.1	0.0
Local manufacturer	18.2	6.1	0.0	0.0	0.0
Total	45.5	12.1	9.1	30.3	3.0

Cross tabulation of the ownership of the suppliers against the operations shows that local importers and manufacturers are generally locally owned while the multinational companies are, as expected, generally foreign-owned.

Table 4.1.6 : Sources of the Pharmaceutical products

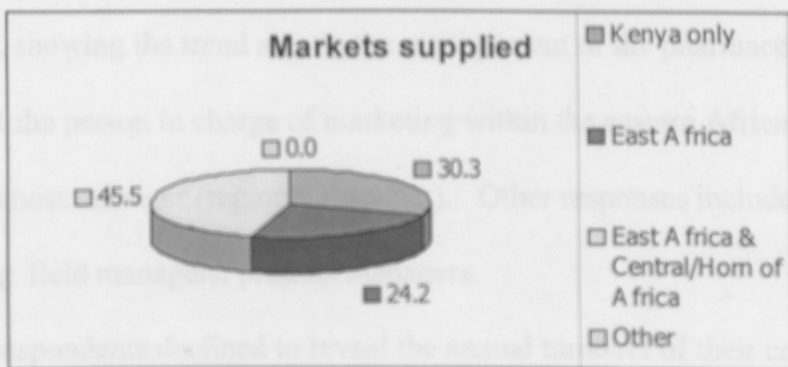
Source of products	% Response
Local manufacture	18.8
Importation with local finishing	0.0
Partial importation & partial manufacture	21.9
Importation only	59.4
Total	100.0



The pie chart shows that nearly 60% of the pharmaceutical drugs available in the country are imported, showing the large dependence of the country on external sources. Some suppliers have local manufacturing plants that manufacture some products locally while sourcing others from abroad.

Table 4.1.7 : Markets supplied by the Pharmaceutical supplier firms

Market	% Response
Kenya only	30.3
East Africa	24.2
East Africa & Central/Horn of Africa	45.5
Other	0.0
Total	100.0



About 45% of the suppliers are regional suppliers, supplying both East Africa and parts of Central and/or the Horn of Africa, this is followed by those who supply Kenya only, then by those who supply East Africa only.

Table 4.1.8: Cross-tabulation of the Market served by the supplier with the Type of Operations

(Percentages)

Type of Operations	Market served by the supplier		
	Kenya only	East Africa	East & Central/ Horn of Africa
National subsidiary with all functions	3.1	3.1	12.5
Marketing subsidiary only, other importer	0.0	6.3	6.3
Licensed local importer, marketer & distributor	25.0	12.5	6.3
Local manufacturer	3.1	3.1	18.7
Total	31.2	25.0	43.8

Cross tabulation of the operations against the market shows that local importers serve mainly the Kenyan market, which is in keeping with the area that their supplier licences them to serve. Subsidiaries of the multinationals and local manufacturers serve a much wider market, mainly the eastern region of Africa.

Table 4.1.9 : Job description of the Respondents in the pharmaceutical firms

Work Description	% Response
Marketing management	23.5
Marketing management with top management	52.9
Top management	8.8
Other	14.7
Total	100.0

The majority of the respondents were in marketing management combined with top management, showing the trend among the management of the pharmaceutical companies of the person in charge of marketing within the eastern African region also being the topmost manager (regional manager). Other responses included people in marketing e.g. field managers, product managers.

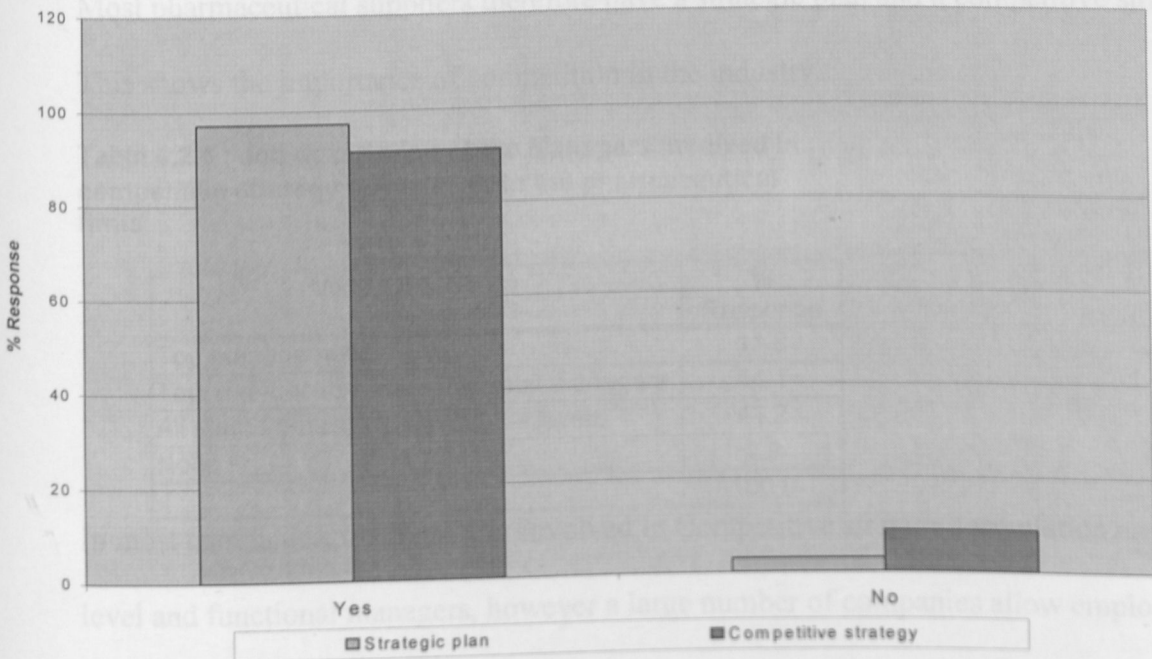
Most of the respondents declined to reveal the annual turnover of their companies over the last five years, citing confidentiality of the information.

4.2 UNDERSTANDING OF COMPETITIVE STRATEGY FORMULATION AND COMPETITIVE ANALYSIS

Table 4.2.1 : Presence or Absence of a Strategic plan and a Competitive strategy among the pharmaceutical firms
(Percentages)

Strategic plan present	% Response	Competitive strategy present	% Response
Yes	97.1	Yes	91.2
No	2.9	No	8.8
Total	100.0	Total	100.0

Presence/Absence of Strategic plan & Competitive strategy



The majority of the companies surveyed had a Strategic plan in place, the only respondent without a plan was a local importer. Most of the companies also had a competitive strategy in place.

Table 4.2.2 : Cross-tabulation of firms with Strategic Plans with firms with Competitive Strategies
(Percentages)

Competitive strategy present?	Strategic Plan present?	
	No	Yes
No	2.9	5.9
Yes	0	91.1
Total	2.9	97.1

Of the companies who had a strategic plan, cross-tabulation reveals that only 5.9% had no competitive strategy, and these were local importers, from the table below.

Table 4.2.3 : Cross-tabulation of the Type of Operations in Pharmaceutical companies with the Presence/Absence of Competitive Strategy (Percentages)

Type of Operations	Competitive strategy present?	
	Yes	No
National subsidiary with all functions	21.2	0.0
Marketing subsidiary only, other importer	12.1	0.0
Licensed local importer, marketer & distributor	36.4	6.1
Local manufacturer	24.2	0.0
Total	93.9	6.1

Most pharmaceutical suppliers therefore have a strategic plan and a competitive strategy.

This shows the importance of competition in the industry.

Table 4.2.4 : Job description of the Managers involved in competitive strategy formulation in the pharmaceutical firms

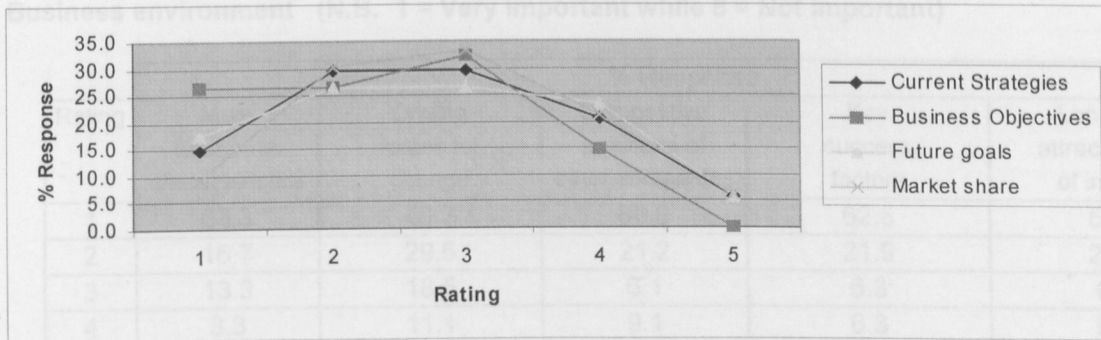
Work Description	% Response
Top management	11.8
Top and functional/departmental managers	44.1
All staff, from top to operational levels	41.2
None	2.9
Total	100.0

In most companies, the managers involved in Competitive strategy formulation are top level and functional managers, however a large number of companies allow employees to contribute to the formulation process according to their skills, e.g. market representatives provide market information.

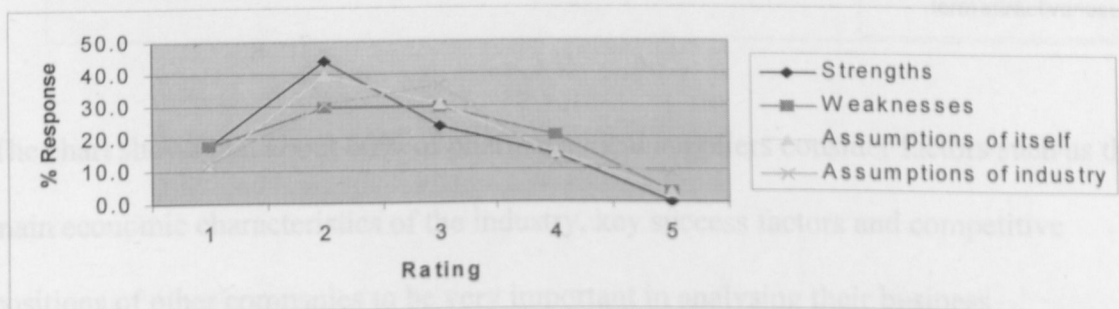
Table 4.2.5 : Rating of Pharmaceutical Company's employees' knowledge about their own company (N.B. 1 = Excellent while 5 = Very poor)

Rating	% Response							
	Current strategies	Business objectives	Future goals	Market share	Strengths	Weaknesses	Assumptions of itself	Assumptions of industry
1	14.7	26.5	17.6	9.1	17.6	17.6	12.1	12.1
2	29.4	26.5	26.5	30.3	44.1	29.4	39.4	30.3
3	29.4	32.4	26.5	33.3	23.5	29.4	30.3	36.4
4	20.6	14.7	23.5	21.2	14.7	20.6	15.2	12.1
5	5.9	0.0	5.9	6.1	0.0	2.9	3.0	9.1

Table 4.2.6 (a) : Rating of Factors used in analysing the Pharmaceutical Company's environment (N.B. 1 = Very important while 5 = not important)



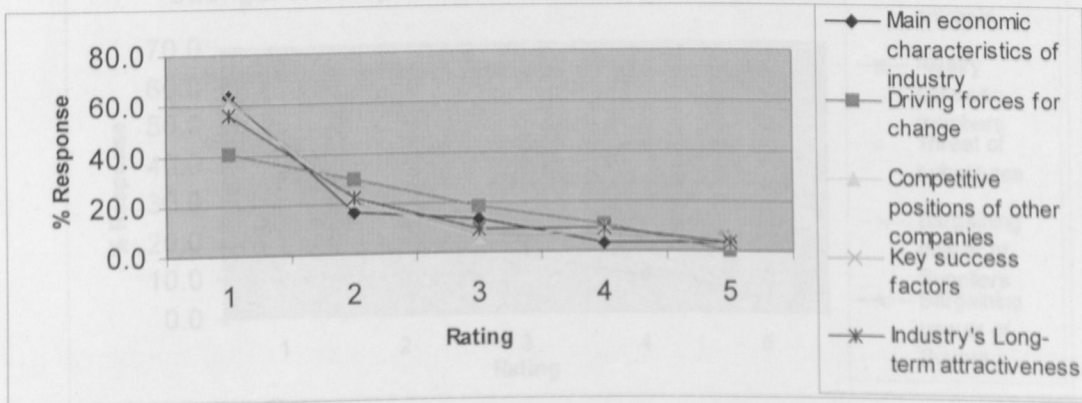
From the chart, employees of most suppliers have an average to good knowledge of their company's business objectives, goals, strategies and market share. Less than 10% of the companies had excellent knowledge of their market share as compared to the other factors, reflecting the effect of the shortage of statistics on the local market as well as the secretiveness of the companies themselves in sharing information.



From the chart above, most suppliers have a good to average knowledge of their own strengths, weaknesses, and what are their company's assumptions about the industry and themselves. They however know more about their strengths and assumptions of themselves than they know of their weaknesses and their assumptions about the industry.

Table 4.2.6 (a) : Rating of Factors used in analysing the Pharmaceutical Company's Business environment (N.B. 1 = Very important while 5 = Not important)

Rating	% Response				
	Main Economic characteristics	Driving forces for change	Competitive positions of other companies	Key success factors	Long-term attractiveness of industry
1	63.3	40.7	60.6	62.5	56.3
2	16.7	29.6	21.2	21.9	21.9
3	13.3	18.5	6.1	6.3	9.4
4	3.3	11.1	9.1	6.3	9.4
5	3.3	0.0	3.0	3.1	3.1

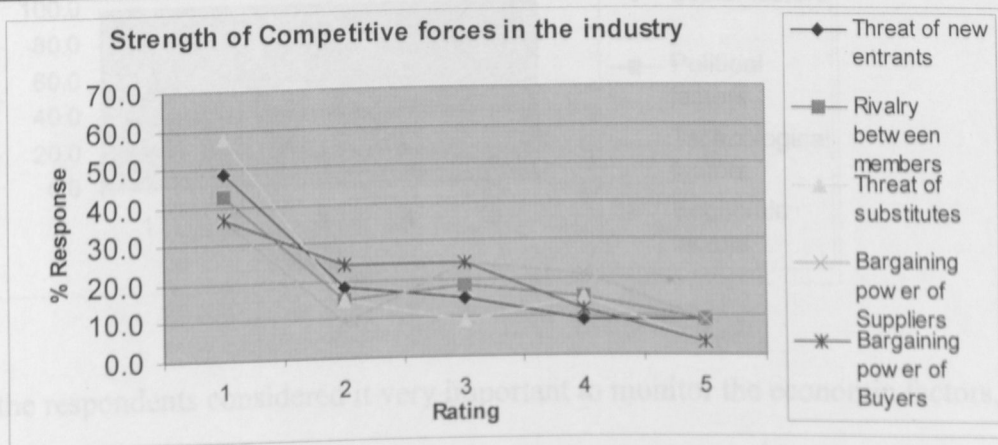


The chart shows that about 60% of pharmaceutical suppliers consider factors such as the main economic characteristics of the industry, key success factors and competitive positions of other companies to be very important in analysing their business environment, while most of the rest rated them as of fair to average importance.

However, only 40% felt knowledge of the driving forces for change in their industry is very important, showing that the companies' response to changes in the industry is delayed.

Table 4.2.6 (b) : Rating of Factors used in analysing the Pharmaceutical Company's Business environment (N.B. 1 = Very important while 5 = Not important)

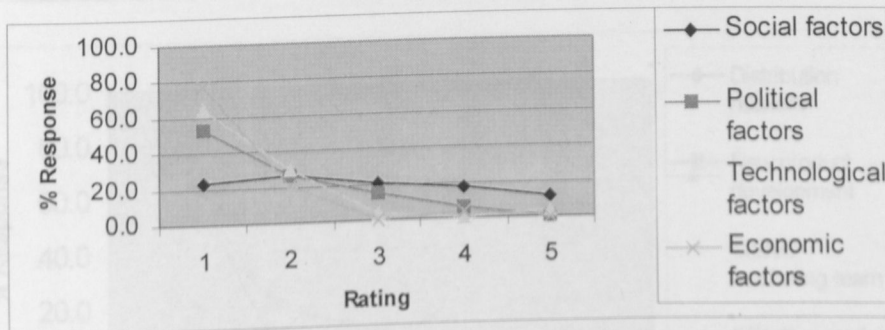
Rating	% Response				
	Strength of Competitive forces in the industry				
	Threat of New Entrants	Rivalry between members	Substitute products	Bargaining power of Suppliers	Bargaining power of Buyers
1	48.5	42.4	57.6	36.4	36.4
2	18.2	15.2	15.2	9.1	24.2
3	15.2	18.2	9.1	24.2	24.2
4	9.1	15.2	15.2	21.2	12.1
5	9.1	9.1	3.0	9.1	3.0



The pharmaceutical suppliers considered it most important to monitor the presence of substitute products, followed by the threat of new entrants into the market and the rivalry between the industry members. This is expected given the influx of cheaper generic substitutes once the patent of a branded product ends, leading to a drop in its sales. Fewer respondents considered the other competitive forces to be very important, especially the bargaining power of suppliers given that about one-third of the respondents were from multinationals, and therefore are their own suppliers for the products. Interviews revealed that the bargaining power of buyers is increasingly important as consumers clamour for cheaper drugs.

Table 4.2.7 : Rating of effect of environmental variables on the pharmaceutical companies (N.B. 1 = Very important while 5 = Not important)

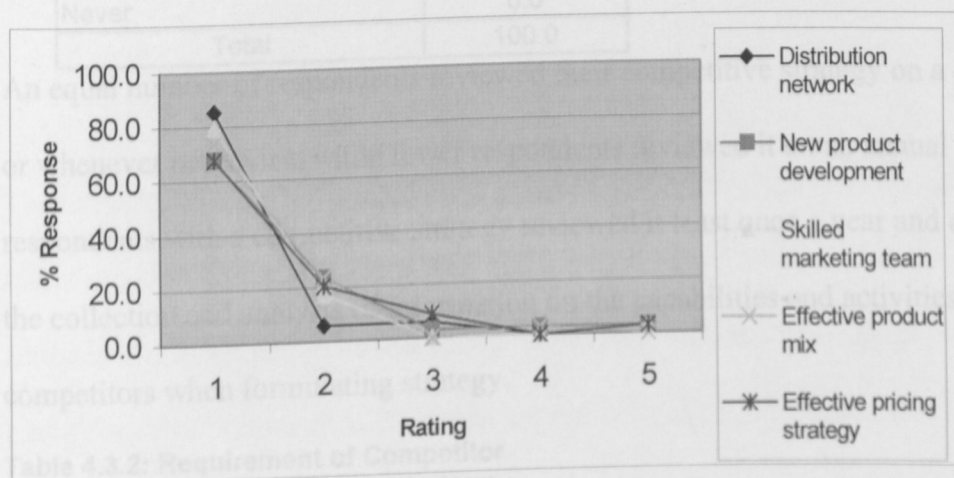
Rating	% Response			
	Social factors	Political factors	Technological factors	Economic factors
1	23.5	52.9	64.7	76.5
2	26.5	26.5	29.4	20.6
3	20.6	14.7	2.9	0.0
4	17.6	5.9	0.0	2.9
5	11.8	0.0	2.9	0.0



80% of the respondents considered it very important to monitor the economic factors, which is expected under the current economic recession. A slightly lower percentage considered technological and political factors very important, which can be explained by the dependence of the industry on innovative research-based products to maintain sales, and the effect of legislation such as the Industrial Property Bill 2001 and the upcoming General elections.

Table 4.2.8 : Rating of Key requirements to compete effectively in the pharmaceutical industry (N.B. 1 = Very important while 5 = Not important)

Rating	% Response				
	Effective distribution network	New product development	Skilled Marketing team	Effective Product mix	Effective Pricing strategy
1	85.3	67.6	79.4	73.5	67.6
2	5.9	23.5	17.6	23.5	20.6
3	5.9	2.9	0.0	0.0	8.8
4	0.0	2.9	0.0	2.9	0.0
5	2.9	2.9	2.9	0.0	2.9



The requirement considered of the highest importance to compete effectively in the local pharmaceutical industry was an effective distribution network, followed by a skilled marketing team, then by an effective product mix. The majority of respondents considered all the requirements to be very important. The presence of a good distribution network enables products to penetrate widely into the market, and a large part of the Kenyan population is located in the rural areas. Pharmaceutical marketers sell their products mainly by influencing doctors and other prescribers, who then write prescriptions for their patients, therefore the presence of a knowledgeable marketing team is necessary. An effective product mix enables the mixing of products sold so as to obtain an adequate gross profit.

4.3 ACTUAL STATUS OF COMPETITIVE ANALYSIS AND COMPETITIVE

INTELLIGENCE

Table 4.3.1: Frequency of review of Competitive strategy

Frequency	% Response
Annually	27.3
Quarterly	36.4
Whenever necessary	36.4
Rarely	0.0
Never	0.0
Total	100.0

An equal number of respondents reviewed their competitive strategy on a quarterly basis or whenever necessary, while fewer respondents reviewed it on an annual basis only. All respondents with a competitive strategy reviewed it least once a year and each required the collection and analysis of information on the capabilities and activities of their competitors when formulating strategy.

Table 4.3.2: Requirement of Competitor information when formulating strategy

Frequency	% Response
Always	32.4
Often	32.4
Sometimes	32.4
Rarely	2.9
Never	0.0
Total	100.0

About one-third of the respondents always require competitor information. Those who require it often, required it on a quarterly to half-yearly basis, while those who chose sometimes, indicated reasons such as the launch of a new product, the entry of a new competitor and a fall in sales/market share as initiating circumstances.

The majority of respondents (96.6%) indicated information on competitors was passed to marketing managers and top management, while only 3.4% indicated that it was passed to marketing management only. This is notable showing that top management is

informed of the competitive situation, and correlates with the observation in section 4.1

that in general, both top and middle managers in the industry are involved in competitive strategy formulation. Some respondents passed such information down to field staff.

Table 4.3.3: Function/Department responsible for Competitive analysis

Department	% Response
Marketing	71.0
Strategic/corporate planning	3.2
Research & Development	0.0
Mixture of the above	25.8
Total	100.0

The majority of respondents placed the responsibility for competitive analysis on the marketing department. Those who picked the mixture option indicated that competitive analysis is performed by the marketing department with the strategic planning section. None chose the Research & Development option, indicating the absence of such a function in local companies and the lack of product development locally.

All the respondents considered it important to monitor their competitors' activities, however only 61.8% considered it important to monitor all other pharmaceutical suppliers.

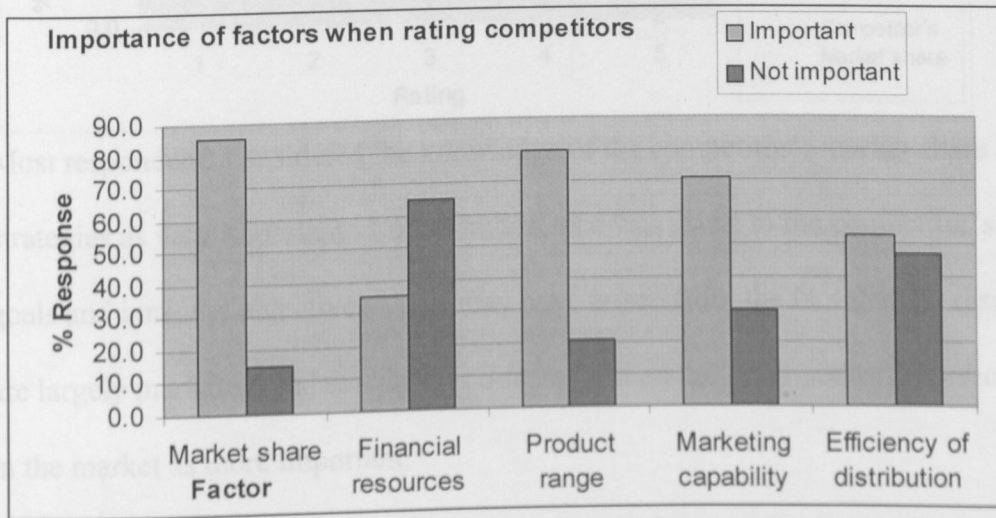
Table 4.3.4: Competitors worthy of monitoring

Competitor type	% Response
Supplier with same brand or generic equivalent	71.4
Supplier with drugs with similar effect	7.1
Supplier with potential to supply same brand or generic equivalent	21.4
Supplier with potential to supply drugs with similar effect	0.0
Total	100.0

Of the balance, a large majority preferred to monitor only those competitors currently with products equivalent to their own (direct substitutes). Very few monitor suppliers of drugs with similar effects (indirect substitutes).

Table 4.3.5: Factors considered when rating competitors

Factor	Important	Not important
Market share	85.3	14.7
Financial resources	35.3	64.7
Product range	79.4	20.6
Marketing capability	70.6	29.4
Efficiency of distribution	52.9	47.1

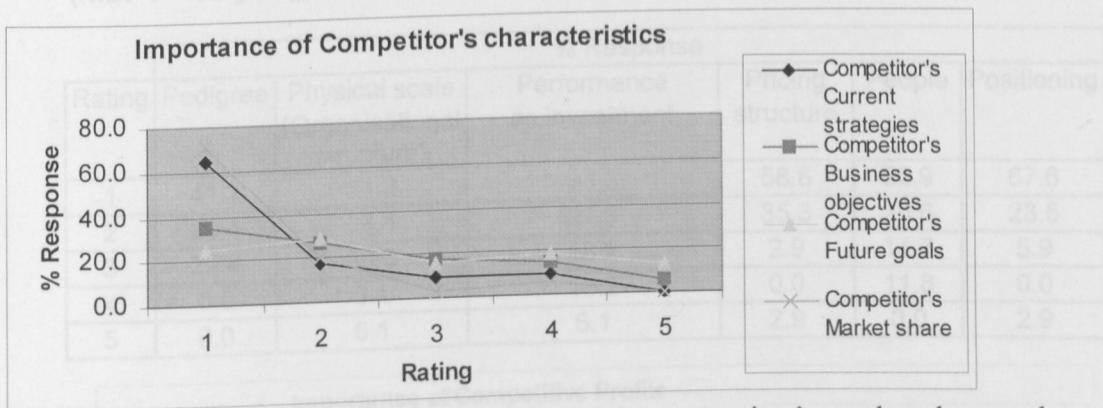


From the diagram, it can be seen that pharmaceutical suppliers rate their competitors of importance first based on their market share, then their product range, marketing capability, distribution capability and lastly by their financial resources. The larger the market share of a competitor the greater the threat to the supplier.

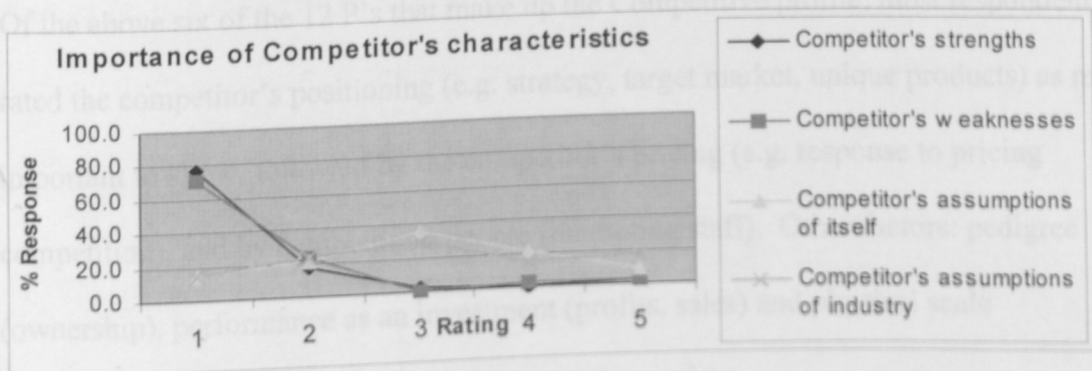
Table 4.3.6 : Rating of the importance of Competitor's characteristics
(N.B. 1 = Very important while 5 = Not important)

Rating	% Response							
	Current strategies	Business objectives	Future goals	Market share	Strengths	Weaknesses	Assumptions of itself	Assumptions of industry
1	64.7	35.3	25.0	70.6	76.5	70.6	14.7	14.7
2	17.6	26.5	28.1	20.6	17.6	23.5	20.6	23.5
3	8.8	17.6	15.6	2.9	2.9	0.0	35.3	29.4
4	8.8	14.7	18.8	5.9	0.0	2.9	20.6	14.7
5	0.0	5.9	12.5	0.0	2.9	2.9	8.8	17.6

Table 4.3.7 (a) : Importance of the 12P's Competitive Profile
 (N.B. 1 = Very important while 5 = Not important)



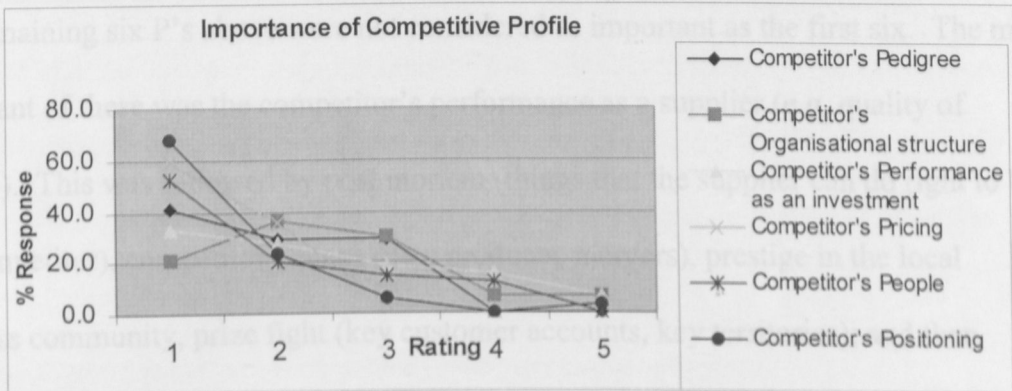
Most respondents considered the knowledge of the competitor's market share and current strategies as very important. Lower importance was given to the competitor's future goals and business objectives. This may have arisen from the fact that the respondents are largely marketers and so consider information on their competitor's current activities in the market as more important.



The chart demonstrates that respondents were less interested in knowing about the competitor's assumptions of its capabilities and the industry. Knowledge of competitor strengths and weaknesses were considered very important, which is expected as they give the companies ideas on what strategies to use to gain over their competitors.

Table 4.3.7 (a) : Importance of the 12P's Competitive Profile
(N.B. 1 = Very important while 5 = Not important)

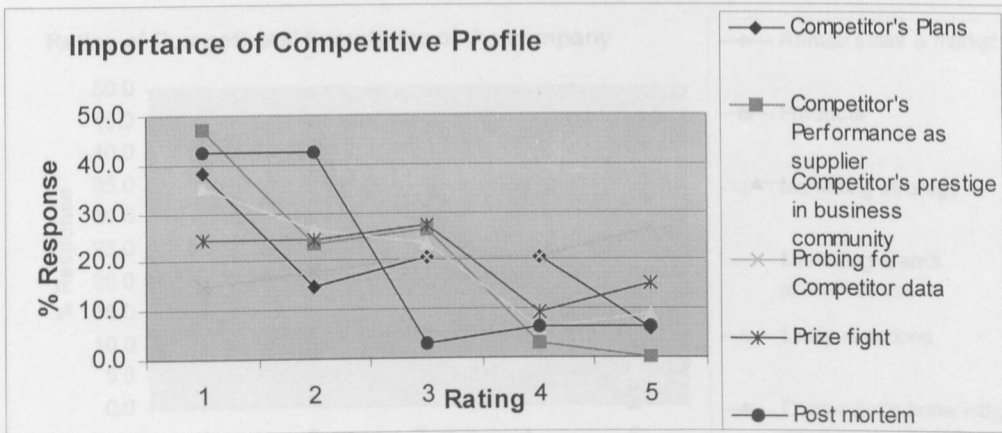
Rating	% Response					
	Pedigree	Physical scale (Organisational structure)	Performance as investment	Pricing structure	People	Positioning
1	41.2	21.2	33.3	58.8	52.9	67.6
2	29.4	36.4	27.3	35.3	20.6	23.5
3	29.4	30.3	18.2	2.9	14.7	5.9
4	0.0	6.1	15.2	0.0	11.8	0.0
5	0.0	6.1	6.1	2.9	0.0	2.9



Of the above six of the 12 P's that make up the Competitive profile, most respondents rated the competitor's positioning (e.g. strategy, target market, unique products) as most important to know, followed by the competitor's pricing (e.g. response to pricing competition), and by competitor's people (marketing staff). Other factors: pedigree (ownership), performance as an investment (profits, sales) and physical scale (organisational structure) were of much lower importance.

Table 4.3.7 (b) : Importance of the 12P's Competitive Profile
(N.B. 1 = Very important while 5 = Not important)

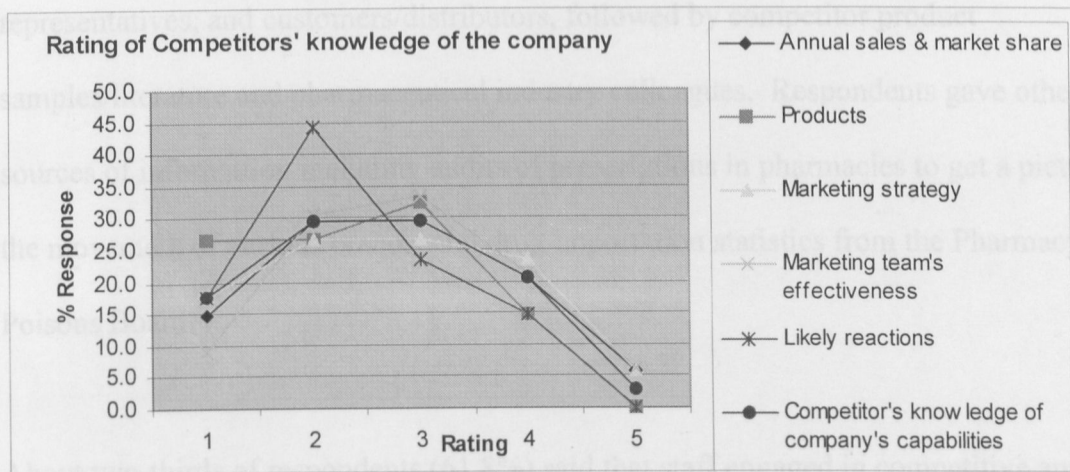
Rating	% Response					
	Plans	Performance as supplier	Prestige in business community	Probing for data	Prize fight	Post mortem
1	38.2	47.1	35.3	14.7	24.2	42.4
2	14.7	23.5	26.5	17.6	24.2	42.4
3	20.6	26.5	23.5	20.6	27.3	3.0
4	20.6	2.9	5.9	20.6	9.1	6.1
5	5.9	0.0	8.8	26.5	15.2	6.1



The remaining six P's above were not considered as important as the first six. The most important of these was the competitor's performance as a supplier (e.g. quality of service). This was followed by post mortem (things that the supplier can do right to beat the competitor), competitor's plans (new products, mergers), prestige in the local business community, prize fight (key customer accounts, key territories); and then probing for data. Most respondents considered it fairly unimportant to probe for data on their competitors from their competitors' former employees or customers.

Table 4.3.8: Rating of how well pharmaceutical companies think that their competitors know them
(N.B. 1 = Excellent while 5 = Very poor)

Rating	% Response					
	Annual sales & Market share	Products	Marketing strategy	Marketing team's effectiveness	Competitor's likely reactions to the company's actions	Competitor's knowledge of the company
1	14.7	26.5	17.6	9.1	17.6	17.6
2	29.4	26.5	26.5	30.3	44.1	29.4
3	29.4	32.4	26.5	33.3	23.5	29.4
4	20.6	14.7	23.5	21.2	14.7	20.6
5	5.9	0.0	5.9	6.1	0.0	2.9



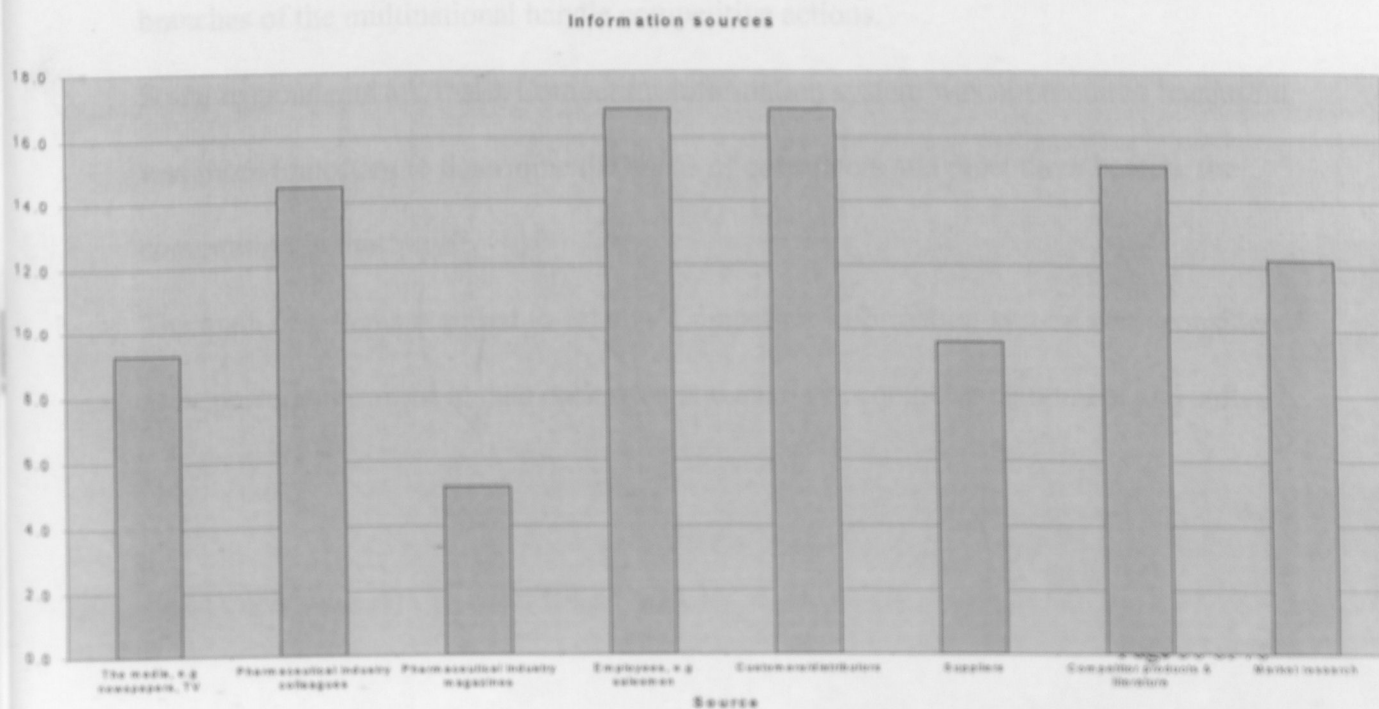
From the chart above, generally the respondents considered their competitors to have average to good knowledge of the respondents' companies, especially of their likely reactions to the competitors' activities in the market. These reactions include price changes in response to a competitor's price changes.

Table 4.3.9: Information sources used by Pharmaceutical suppliers

Information sources	% Response
The media, e.g. newspapers, TV	9.3
Pharmaceutical industry colleagues	14.5
Pharmaceutical industry magazines	5.2
Employees, e.g. salesmen	16.9

Information sources	% Response
Customers/distributors	16.9
Suppliers	9.6
Competitor products & literature	15.1
Market research	12.2

The biggest sources of competitor information are employees (especially marketing



representatives, and customers/distributors, followed by competitor product samples/literature and pharmaceutical industry colleagues. Respondents gave other sources of information including audits of prescriptions in pharmacies to get a picture of the movement of various brands, and drug importation statistics from the Pharmacy & Poisons Board.

About two-thirds of respondents (61.8%) said that staff engaged in competitive analysis are given a briefing of the problem to be researched before they start to collect data. Fewer respondents (41.2%) indicated the presence of an Information system for the collection, analysis, storage and retrieval of competitor information. Interviews revealed that for some respondents, this information system was mainly simple, with no actual storage or retrieval facilities for future analysis. Once reports on competitive information were prepared and used, they are discarded.

An interview with one multinational respondent indicated the presence of a formal CIS run by the corporate overseas staff. The respondent would regularly give input of competitor information, and receive output indicating competitor activities and how other branches of the multinational handle competitive actions.

Some respondents felt that a Competitor information system was not required because it was more important to determine the needs of consumers and meet them beating the competition in that way.

The main cost items required to set up a Competitor information system were considered to be personnel trained in data collection and analysis, computer equipment and software,

financial resources. Some respondents noted the cost of obtaining a reliable source of market and competitor information, mainly via hiring market researchers.

Only 11.8% of the respondents indicated their company had a budget specifically for competitive analysis. These were mainly multinational companies. However two firms, a local importer and a manufacturer had a budget, which could be the result of having a wider market as both of them cover the East African region. Interviews with other respondents revealed that competitive analysis is generally covered under the marketing budget.

Major improvements noted as a result of engaging in competitive analysis include:

- i) Improved sales volumes and profitability
- ii) Better customer focus
- iii) Quicker more proactive response to changes in the market, including competitive challenges
- iv) Improved market share
- v) Improved market information and thus better understanding of the market

In response as to whether the supplier's operations always approximate the competitive strategies, most respondents felt that they did. Many however explained their answer with the observation that other factors such as the lengthy economic decline reduced the extent of achievement of these strategies. Those who felt that they did not achieve their strategies indicated problems such as the lack of good information collection methods, or the absence of a review of their achievement of their strategic plan.

4.4 FACTOR ANALYSIS

Table 4.4.1 : Factor analysis results

Variable name	Variable number	Communality	Eigen value
Performance as supplier	1	0.65850	4.56007
Probing for data	2	0.85953	1.91453
Prize fight	3	0.85785	1.54062
People	4	0.81923	1.08499
Performance as investment	5	0.71839	0.83627
Physical scale	6	0.71344	0.61949
Positioning	7	0.81644	0.49091
Prestige in business community	8	0.79841	0.30183
Post mortem	9	0.71160	0.27238
Pricing	10	0.86554	0.18629
Plans	11	0.58662	0.11604
Pedigree	12	0.69466	0.07657

Final Varimax Rotated Factor Matrix

Variable name	Variable number	Factor 1	Factor 2	Factor 3	Factor 4
Performance as supplier	1	-0.07764	0.78786	0.04067	0.17346
Probing for data	2	0.92043	0.06633	0.00248	-0.08909
Prize fight	3	0.85885	0.20338	0.27094	0.07378
People	4	0.21373	0.86362	0.16459	0.02473
Performance as investment	5	0.48795	0.36950	0.40385	0.42506
Physical scale	6	0.34624	0.73358	-0.21089	0.10462
Positioning	7	-0.04812	-0.15375	0.88727	-0.05680
Prestige in business community	8	0.44050	-0.18372	0.39436	0.64428
Post mortem	9	0.33583	0.26149	0.67487	0.27384
Pricing	10	-0.27169	0.24642	0.08491	0.85076

Factor analysis was carried out on question 22 that concerned the 12 P's Competitive Profile. The results are presented in the tables above. The first table shows the factor analysis output of the variables and their respective communalities. The communality is the proportion of the variable's variation to the total variation of the factors, e.g. 65.85% of variable 1 is involved in the factors. Variables 1, 11 and 12 are lower than the others

in terms of their contribution to the factors. The Eigen value is the sum of the squared factor loadings for a factor.

The initial factor matrix gives the correlations between the factors and the variables. From it, the final varimax rotated factor matrix is obtained which simplifies the columns of the factor matrix by making all values close to 0 or 1. In the final matrix, it can be seen that variable 2 and 3 load heavily on factor 1, variable 4 on factor 2, variable 7 on factor 3 and variable 10 on factor 4.

CHAPTER FIVE : SUMMARY AND CONCLUSIONS

5.1 SUMMARY

The objectives of this study were to establish the level of awareness of competitive intelligence systems among Kenyan pharmaceutical suppliers, and to establish whether competitive intelligence (CI) is used in formulating competitive strategy.

Searches through literature revealed that in western countries, the use of CI in competitive strategy formulation is a common practice. This study attempted to determine the practice among Kenyan firms in the pharmaceutical industry.

The results show that the majority of the firms, whether locally owned or subsidiaries of multinationals, engage in strategic planning and have a competitive strategy. The strategy is the more useful given that many firms market their products within the eastern African region, not just Kenya alone. Strategy formulation tends to involve both top and middle management, and some firms encourage their employees to contribute information to the process. The competitive strategy is reviewed generally quarterly or more frequently, and updated with recent information.

All companies undertake some form of competitive analysis, which is done mostly by the marketing function. None have a department specifically concerned with competitive analysis or competitive intelligence. This shows the lack of the performance of CI as a separate process, and the type of CI produced being more dependent on the needs of marketing rather than on those of the whole company. This also indicates that the CI produced is not always available to decision-makers outside the marketing function when required.

Generally company employees have average knowledge of their company's goals, capabilities and performance in the market. The absence of good market information means that many companies can only estimate the sales or market share of their products and those of their competitors. This is in contrast to western companies where such information is more easily available. The employees tend to have better knowledge of their company's strengths than of its weaknesses, suggesting lower concentration on areas where competitors are likely to take advantage of them.

The companies think that their competitors have only average knowledge of their companies, mainly of more easily obtainable information such as products.

In environmental analysis, the companies tend to monitor the main economic characteristics of the industry and the competitive positions of other firms. The most important competitive forces in the industry are the threat of substitute products, the threat of new entrants and the competition between the pharmaceutical suppliers.

The presence of a good distribution network, a skilled marketing team and a good product mix are considered key to success for a supplier.

The market share, strengths and weaknesses of the competitors are most monitored. The companies also monitor their competitors' pricing and how they position themselves in the market.

Most companies do not have an effective management information system for the collection, analysis and dissemination of competitive information, and where such a system was available, it was limited in capacity. The sources used for data collection were fewer than those available in western countries, e.g. public databases. Some respondents noted the absence of reliable market information.

The improvements noted as a result of engaging in competitive analysis were similar to those in western countries, e.g. improved knowledge of the company's market.

5.2 CONCLUSIONS

5.2.1 CONCLUSIONS OF GENERAL FINDINGS

There is low awareness of the process and product of Competitive Intelligence among the studied Kenyan firms. The majority undertake some form of Competitive analysis instead, which is not advanced as that detailed in western literature.

Most pharmaceutical firms do use competitive information as an input into strategy formulation but it is not collected, analysed, arranged into different report formats and disseminated as formally as is done by western firms as indicated in the literature review.

5.2.2 CONCLUSIONS OF FACTOR ANALYSIS

Four factors were obtained from the results. The first factor had a high loading from the variables probing for data and prize fight. Both these variables concern relations with customers (transactions, information search). This factor can be described as the value customers attach to their suppliers so as to provide business and information to them.

The second factor had a high loading from the variable people, thus it can be described as the utilisation of company staff as organisational resources in the battle for competitive advantage. The third factor had a high loading from the variable post mortem. This variable is mainly concerned with determining the right actions to beat competitors. The factor may be described as performance review. The fourth factor had a high loading from the variable pricing and can be described as the use of price as a competitive tool.

5.3 LIMITATIONS OF THE STUDY AND AREAS FOR FUTURE RESEARCH

The respondents in general declined to reveal their sales figures for the last five years, citing confidentiality. This prevented the comparison of the trend in sales figures with the use of competitive strategy in this study.

Given the short length of time available to collect data, the researcher was unable to collect more of the questionnaires, and thus the response rate was only 37%.

This study was based on only one industry, therefore for future research, the extension of the study to other industries may reveal more useful information. The study generally targeted marketing management as respondents, thus it does not give a clear picture of the use of CI at the top management level. Future studies can thus be extended to this level.

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APPENDIX 1

LETTER OF INTRODUCTION TO THE RESPONDENTS

**The Respondent,
Company Name,
P.O. Box _____,
Nairobi.**

Dear Sir/Madam,

RE: REQUEST FOR YOUR PARTICIPATION IN A STUDY

I am a post-graduate student pursuing a Masters in Business Administration (MBA) in the Faculty of Commerce, University of Nairobi.

In order to fulfill the degree requirements, I am undertaking a management research project on The Use of Competitive Intelligence Systems in the Kenyan Pharmaceutical Industry. The study aims to assess the collection of competitive information and the use of Competitive analysis as an aid to strategy formulation in the industry.

Your firm has been selected to form part of this study. As such, I kindly request your assistance in completing the attached questionnaire. Any additional information you feel might be of assistance in this study is welcome.

The study is purely for academic purposes. All information and data given will be kept strictly confidential. A copy of the final study will be availed to you on request once the study is complete.

Your cooperation will be highly appreciated.

Yours faithfully,

**Cecilia Muiva
MBA student**

**J.K. Kipng'etich
Supervisor**

QUESTIONNAIRE

Section I

1. Which year was your organisation established locally? _____
2. How many employees does your organisation have?
 - a) Less than 50
 - b) 50 to 100
 - c) 100 to 200
 - d) Above 200
3. How would you classify the ownership of your organisation?
 - a) 100% locally owned company
 - b) Over 51% locally owned
 - c) Over 51% foreign owned
 - d) 100% foreign owned
 - e) Equal foreign and local ownership
4. How would you describe the operations of your organisation?
 - a) National subsidiary of a multinational company involved in importation or manufacture, marketing, and distribution
 - b) National subsidiary of a multinational company involved only in marketing with another company engaged in the importation and distribution of the drugs
 - c) Local company under licence from a foreign manufacturer to import, market and distribute their products
 - d) Local company producing, distributing and marketing its own products
5. How are your pharmaceutical products sourced?
 - a) Local manufacture of all products
 - b) Importation of partially finished products which are then finished and packaged locally
 - c) Importation of some finished products with some local manufacture of other products
 - d) Importation of finished products only
6. What is the market that you serve?
 - a) Kenya only
 - b) East Africa (Kenya, Uganda, Tanzania) only
 - c) East Africa and parts of Central and/or the Horn of Africa
 - d) Other. Please specify _____
7. How would you describe your work?
 - a) Marketing management only

- b) Marketing management combined with top management of the company
- c) Top management of the company
- d) Other: Please specify _____

8. What has been your annual sales turnover (in KShs) of your company for the last 5 years?

1996 _____	1999 _____
1997 _____	2000 _____
1998 _____	

Section II

9. Does your company have a strategic plan?

Yes [] No []

If so, does your company have a Competitive strategy?

Yes [] No []

10. Which managers are involved in competitive strategy formulation in your company?

- a) Top management only
- b) Top and functional/departmental managers
- c) All staff, from top management to operational level, are required to contribute to various extents according to their skills
- d) None

11. How would you rate your company employees' knowledge of your company in the following areas? (N.B. 1 = Excellent while 5 = Very poor)

Consideration	1	2	3	4	5
Company's current strategies					
Company's business objectives					
Company's future goals					
Company's market share					
Company's strengths					
Company's weaknesses					
Company's assumptions about itself					
Company's assumptions about the industry					

12. With what importance do you rate the following items when carrying out the analysis of your business environment?

(N.B. 1 = Very Important while 5 = Not important)

Consideration	1	2	3	4	5
The Main economic characteristics of the industry					
Driving forces for change in the industry					
Strength of competitive forces in the industry: 1. The threat of new entrants into the industry 2. The rivalry between existing members of the industry 3. The threat of substitute products 4. The bargaining power of suppliers 5. The bargaining power of buyers					
The competitive positions of other companies in the industry					
Key success factors for the industry					
The long-term attractiveness of the industry					

13. What importance do you perceive the following environmental variables to have on your business?

(N.B. 1 = Very Important while 5 = Not important)

Environmental factor	1	2	3	4	5
Social factors, e.g. people's beliefs, lifestyle					
Political factors, e.g. corruption, laws, political uncertainty					
Technological factors, e.g. new innovative drugs					
Economic factors e.g. inflation, interest rates, income and Expenditure patterns					
Others : Please specify 1) 2)					

14. What importance do you perceive the following items to have as key requirements to compete effectively in the pharmaceutical industry?

(N.B. 1 = Very Important while 5 = Not important)

Factor	1	2	3	4	5
Effective distribution network					
New product development and introduction					
Skilled marketing team					
Effective product mix					
Effective pricing strategy					
Others : Please specify 1) 2)					

Section III

15. How frequently are your competitive strategic plans reviewed?

- Annually [] Quarterly [] Whenever necessary []
Rarely [] Never []

16. When formulating strategy, does your organisation require the collection and analysis of information on the current capabilities, activities and possible future moves of your competitors?

- Always [] Often [] Sometimes [] Rarely [] Never []

If your answer was "Often", how often does this process occur (e.g. every quarter)?

If your answer was "Sometimes", what kind of event causes the initiation of the process?

17. To whom are reports on such information passed to in the organisation?

- a) Marketing management only
- b) Marketing management and top management of the company
- c) Top management of the company only
- d) Other: Please specify _____

18. Which department is responsible for your Competitive analysis?

- Marketing []
Strategic/Corporate Planning []
Research & Development []
Mixture of the above []
Other: Please specify _____

19. Do you consider it important to monitor your competitors? Yes [] No []

If not, why?

20. Do you rate all pharmaceutical suppliers (importers and/or manufacturers) as competitors worthy of monitoring? Yes [] No []

If not, which of the following do you rate as competitors worthy of monitoring?

- a) Pharmaceutical suppliers with the same brand or generic equivalent of your products
- b) Pharmaceutical suppliers with drugs similar in effect to, but not in the same chemical class, as your products

- c) Pharmaceutical suppliers with the potential to supply the same brand or generic equivalent of your products
- d) Pharmaceutical suppliers with the potential to supply drugs similar in effect to, but not in the same chemical class, as your products

21. Select one or more factors that you consider when rating competitors to your company in terms of importance.

- a) Market share
- b) Financial resources
- c) Product range
- d) Marketing capability
- e) Efficiency of distribution
- f) Other : Please specify _____

22. With what importance do you rate the following items when carrying out the analysis of your competitors? (*N.B. 1 = Very Important while 5 = Not important*)

Consideration	1	2	3	4	5
Competitor's current strategy					
Competitor's business objectives					
Competitor's future goals					
Competitor's market share					
Competitor's strengths					
Competitor's weaknesses					
Competitor's assumptions about itself					
Competitor's assumptions about the industry					

23. Which of the following do you use when collecting information about your competitors? (*N.B. 1 = Very Important while 5 = Not important*)

Consideration	1	2	3	4	5
Competitor's pedigree (ownership)					
Competitor's organisational structure (Physical scale, e.g. number of employees)					
Competitor's Performance as an investment					
Competitor's Pricing structure					
Competitor's People (quality of staff, reputation as an employer)					
Competitor's Positioning (target market)					
Competitor's Plans (mergers, growth, acquisitions)					
Competitor's Performance as a supplier					
Competitor's Prestige in the business community					
Probing for data (e.g. interview former employees)					
Prize fight (salespeople, accounts, territories)					
Post mortem (what things you will do to beat them)					

24. How would you rate overall your company's knowledge of your competitors in the following areas?

(N.B. 1 = Excellent while 5 = Poor)

Consideration	1	2	3	4	5
Competitor's annual sales and market share					
Competitor's products					
Competitor's marketing strategy					
Competitor's marketing team effectiveness					
Competitor's likely reactions to your company's movements in the market					
Competitor's knowledge of your company's strategies and capabilities (strengths and weaknesses)					

25. Select (using a tick) the information sources that your company uses to collect information on your competitors.

- The media, e.g. newspapers
- Pharmaceutical industry colleagues
- Pharmaceutical industry magazines
- Employees e.g. salesmen, other frontline staff
- Customers / distributors
- Suppliers
- Competitor product literature and/or product samples
- Market research
- Others. Please specify _____

26. Do the managers in your company give a briefing of the problem on which they require competitive information and the reporting format to the competitive analysis staff before the staff begin their data collection?

Yes No

27. Do you have in place an effective Management Information system for the collection, analysis, storage and retrieval of competitor information?

Yes No

If not, how do you think your current system can be improved?

28. What, in your opinion, are the cost items involved in setting up of a Competitive Intelligence (Competitor Information) System?

29. Does your company have a budget specifically for Competitive analysis?

Yes [] No []

30. What major improvements have you noted in the company as a result of engaging in competitive analysis and formulating a competitive strategy?

31. Do you feel that the results of your company's operations always approximate your competitive strategies/plans?

THANK YOU FOR YOUR TIME