

DECLARATION

**RESPONSES OF TOBACCO MANUFACTURING FIRMS IN
KENYA TO CHANGES IN THE INDUSTRY: THE CASE OF
BRITISH AMERICAN TOBACCO (K) LTD**

BY

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
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**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL
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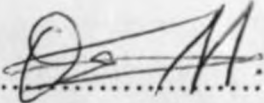
DECLARATION

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

Signed 
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Date 27-09-05

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

Signed 
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To my best friend, you are always there for me that is the wonder of you.

I am grateful

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ABSTRACT

This study sought to identify the perception of tobacco manufacturing firms in Kenya to changes in industry forces. It also sought to identify the responses of these firms to the changes. The study used Porter's modified 5-force model to define the changes in the tobacco industry in Kenya. The researcher felt that this framework would be more comprehensive for analysis of the changes in the tobacco sector.

The rationale for the study arose out of the dynamic nature of the Kenyan and the international business environment. The changes in the industry forces affecting the tobacco industry were known. However, the perception of these forces and the responses to these changes by the firms specifically British American Tobacco (K) Ltd was unknown. It is a case study of British American Tobacco (K) Ltd the leading tobacco manufacturer in Kenya. The study used primary data that was collected through personal interviews conducted using an interview guide (Appendix 1). The data was analyzed using content analysis.

Findings from this study revealed British American Tobacco (K) Ltd perceives the nature of competition in the industry as moderate since the government has created a leveled playing field for players. The firm is now using a variety of operational and strategic responses to manage the changes in the industry forces. The company is restructuring its internal processes to achieve efficiencies throughout its' value chain. The firm has taken a proactive management posture and has strategies to cope with the consequences of the passing of the pending tobacco bill in Kenya. They will continue to support the enactment of a realistic, workable and enforceable regulation that addresses the health concerns whilst taking into account Kenya's socio-economic realities. They believe that an all-inclusive approach would result in the collective ownership of what will ultimately be good legislation.

The firm is actively involved in social responsibility activities like afforestation, rural health development, informal sector programmes for example the jua kali sector as well as contributing to infrastructure development like rural road repair and education programmes geared to educate the public on risks associated with smoking.

British American Tobacco (K) Ltd in 2004 became the first firm in Kenya to publish a corporate social report. The aim of this strategy is to provide a platform for direct dialogue with stakeholders on various issues. Management of various stakeholders seems to be a key challenge for the firm to sustain its' successful performance and achieve excellence.

The environment is constantly changing with time presenting new horizons that a manager must jump high to achieve. According to Mintzberg (1987), one of the roles of a manager is that of being a 'response to change'. He is often called upon to bring stability back to the organization. Failure to do this would put the firm's growth in a precarious position. All organizations are continuously striving to do so. They use input systems creating that they influence the environment and they are influenced by it. The environment is dynamic. It changes rapidly and is unpredictable. The dynamics is described as turbulence. Each type of turbulence has different characteristics, requiring different strategies and responses of the firm. The role of strategy therefore is to link the organization's capabilities and environmental (Ansoff and McDermott, 1999).

An increasingly volatile environment affects the survival of the firm. Since organizations are open systems they are firm dependent with the environment. Thus the strategy implemented and nature of strategic response in organizations depends on the environment. The environment is not what they are operating (Mintzberg, 2007). Strategic response requires firms to change their strategy to match the environment and also to transform their internal capability to match the strategy. This is done not a that organizations need to balance both the external and internal environment to maintain strategic fit between the environment and the change strategy (Ansoff and McDermott, 1999). A strategic gap arises if an organization's strategy is not aligned with the environment. If an organization's internal capabilities are not matched to its strategy, then a strategic gap exists. It is this important that organizations are able to well their strategies with changes in the environment and match their capabilities to the external strategy in order to survive, succeed and prosper (Mintzberg, 1992).

Good strategy lies in satisfying strategy is a set of interrelated economic and technical characteristics that give rise to the UNIVERSITY OF NAIROBI
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Universities (AAU).

CHAPTER ONE: INTRODUCTION

1.1 BACKGROUND

The environment is constantly changing each time presenting new hurdles that a manager must jump at the right time. According to Mintzberg (1987), one of the roles of a manager is that of being a responder to change. He is often called upon to bring stability back to the organization. Failure to do this would put the firm's success in a precarious position. All organizations are environment serving or dependent. They are open systems meaning that they influence the environment and they are influenced by it. The environment is dynamic. It changes rapidly and in unpredictable directions. The dynamism is described as turbulence. Each type of turbulence has different characteristics, requires different strategies and capabilities of the firm. The role of strategy therefore is to link the organization's capabilities and its environment (Ansoff and McDonnel, 1989).

An increasingly volatile environment affects the mission of the firm. Since organizations are open systems they are interdependent with the environment, then the strategy employed also known as strategic response in organizations needs to take into account the environment within which they are operating (Mwanthi, 2003). Strategic response requires firms to change their strategy to match the environment and also to transform their internal capability to match the strategy. This in turn means that organizations need to harness both the tangible and intangible assets to maintain strategic fit between the environment and the strategy (Ansoff and McDonnel, 1989). A strategic gap arises if an organization's strategy is not matched to its environment. If an organization's internal capabilities are not matched to its strategy, then a capability gap arises. It is thus important that organizations are able to shift their strategies with changes in the environment and match their capabilities to the selected strategy in order to survive, succeed and remain relevant (Porter, 1985).

Each industry has an underlying structure or a set of fundamental economic and technical characteristics that gives rise to competitive forces. The strategist wanting to position his firm to cope best with the industry environment or to influence the environment in the company's favor must learn what makes the environment tick. According to Porter (1998), this view of

competition pertains equally to industries dealing with services and to those selling products. Critical to strategy formulation is coping with competition. Competition in an industry is rooted in its underlying economics and competitive forces that exist. Competitive forces may go well beyond the established rules in a particular industry.

Customers, suppliers, potential entrants and substitute products are all competitors that may be more or less prominent or active depending on the industry (Porter, 1998). Knowledge of these underlying sources of competitive pressure provides the backdrop for strategic agenda for action. They highlight the critical strengths and weaknesses of the company, animate the positioning of the company in the industry, clarify the areas where strategic changes may yield the greatest payoff and highlight the places where industry trends promise to hold the greatest significance as either opportunities or threats. Firms must understand the industry so as to develop effective strategies to compete and develop sustainable competitive advantage.

The Kenyan business environment has been changing over the years with the liberalization of the economy, globalization, price decontrols and introduction of new government regulations. These changes have affected businesses operating in the country regardless of the sector in which they operate. Organizations being environment dependent have to constantly adapt their activities and internal configurations to reflect new external realities. Failure to do this may put the future success of an organization in jeopardy (Aosa, 1998).

1.2 TOBACCO INDUSTRY IN KENYA.

The tobacco plant is believed to have originated in the western hemisphere. Columbus is accredited with introducing tobacco into Europe. Prior to European influence the Americans, Indians of Mexico and Peru used tobacco for ceremonies, medicinal purposes and to alleviate hunger pangs during famines. The leaves of the plant are used for smoking, chewing and sniffing. The leaves contain over 19 known carcinogens in addition to nicotine (Sokoni, May/June 2001).

Due to this fact, the tobacco industry worldwide has faced an increasingly hostile business environment. The tempo and magnitude of anti-tobacco lobby groups has been so enormous that in some cases total bans have resulted. The Kenya government has moved to regulate the

industry by introducing a Tobacco Control Bill, while courts around the world have awarded astronomical compensation claims against tobacco companies in damages arising from cigarette smoking. In the year 2000, an American court awarded plaintiffs 140 billion dollars in damages in the largest paying class action suit ever (Sokoni, May/June 2001).

Table 1: The production and consumption of Cigarettes in Kenya 1990-2003

Before 1907, there were no tobacco firms in Kenya until British American Tobacco (K) Ltd came into the market. Previously tobacco popularly known as 'mbake' was chewed and sniffed by the elderly of society as a pass time activity and as a sign of maturity especially among men. According to Phombeah (2000), it is estimated that of the 30 million people in Kenya, 5 million are smokers. Today the industry seems to be in doldrums because of the reduction the number of smokers. This has been caused by increased awareness of the ills associated with cigarette smoking. Press sources estimate that currently the tobacco industry employs over 600,000 people (*Daily Nation, May 30th 2003*). About 30,000 to 40,000 metric tones of locally grown tobacco is processed and exported annually. The tobacco industry in Kenya is duopolistic in nature. It is a consolidated industry dominated by two companies namely British American Tobacco (K) Ltd and Mastermind Tobacco Ltd.

British American Tobacco (K) Ltd (B.A.T.) is a multinational company that has been operating in Kenya since 1907. The company opened a factory in Kenya in 1957. The firm has a long experience both in the tobacco leaf production and cigarette manufacturing. Until the 1990s it had been the tobacco products monopoly. B.A.T. commands above 85 per cent of the total cigarette market in Kenya. According to company's 2004 annual report, the firm contributes 6.6 billion shillings in form of taxes to the national coffers. British American Tobacco (K) Ltd is facing challenges because of changes in the environment. The tobacco industry seems to be in a slump as a result of campaigns launched by lobby groups and government regulation. The industry forces are also changing but the perception of these changes and responses to these changes by British American Tobacco (K) Ltd is not known.

1.3 STATEMENT OF THE PROBLEM.

The tobacco industry seems to be under siege. In fact some observers say that we are witnessing the dying kicks of the multi-billion dollar industry. The firms in the industry might even be driven out to extinction. Government sources show that the production and

consumption of cigarettes has been declining consistently. In 2002, cigarette production broke the downward trend maintained since 1998 to record growth of 1.7%. However in the year 2002, consumption of tobacco dropped further by 44.8 % (Economic Survey, 2003).

Table 1: The production and consumption of Cigarettes in Kenya 1998-2002

Year	1998	1999	2000	2001	2002
Production (Millions of sticks)	7,599	7,231	6,009	5,850	5,950
Consumption (Millions of sticks)	6,254	4,799	2,645	2,136	1,179

Source: Adapted from *Statistical Abstract 2003*, Ministry of Planning and National Development, pg 149

However, in spite of this phenomenon, British American Tobacco (K) Ltd has continued to respond to the changing circumstances so as to remain profitable. The firm has had to make both operational and strategic responses to the challenges from the environment facing the industry to remain relevant and successful.

Drugs, a good substitute of tobacco have a more lasting effect and many young Kenyans have been lured into their use. Drug trafficking is flourishing although it is illegal. Soft drugs such as “miraa” and “muguka” are also being increasingly used (Daily Nation, February 8th 2005). The government is now encouraging tobacco leaves farmers to shift to sunflower farming which is more profitable and perceived to be less harmful to the health of tobacco leaves farmers. This campaign will reduce the number of farmers and significantly affect the bargaining power of suppliers.

Buyers have become more informed about the ill effects of cigarette smoking. They are demanding for better filters and the reduction in the tar content in cigarettes. British American Tobacco (K) Ltd faced litigation in 2003 from a consumer who alleged that

advertisement and non disclosure of the harmful effects of tobacco smoking by B.A.T (K) led to his smoking and consequent illness. The government has also increased taxation on their brands making them less affordable to consumers has imposed regulation to support to tobacco control. Although there are few players in the industry there has been rivalry between them as demonstrated by the trademark infringement litigation case between British American Tobacco (K) Ltd and Cut Tobacco. These changes in industry have challenged firms and specifically British American Tobacco (K) Ltd to rethink their strategies to be able to ensure continued sustained operations and reach their final consumer. The firms also need to adhere to the regulations issued by the government and keep their suppliers satisfied.

The tobacco industry does not seem to have drawn the interest of many researchers in Kenya. Only two studies were found; one was about the strategic responses of British American Tobacco (K) Ltd to the competitive environment (Mwanthi, 2003). This study focused on identifying the environmental challenges facing the firm and the strategic responses to these changes. The other (Mwangi, 2002) was about the effects of the tobacco regulation on the marketing mix. It focused on the changes in one industry factor, which is the government and interest groups. It appears that perception of British American Tobacco (K) Ltd of forces affecting the industry and its responses both strategic and operational, to the changing forces have not been studied. Consequently, a knowledge gap exists concerning responses of British American Tobacco (K) Ltd to changing forces in tobacco industry. The research questions addressed by this research are: how does British American Tobacco (K) Ltd perceive the changes in industry forces and how is the firm responding to the changing industry forces?

1.4 OBJECTIVES OF THE RESEARCH.

1. To establish how British American Tobacco (K) Ltd perceives changes in the industry forces affecting the tobacco industry.
2. To determine the responses of British American Tobacco (K) Ltd in addressing changes in industry forces.

1.5 SIGNIFICANCE OF THE STUDY LITERATURE REVIEW

A study on the responses to changing industry forces will provide insights that would be useful to British American Tobacco (K) Ltd in avoiding an otherwise impending death of the firm and the industry in general. The tobacco industry is a significant player in the economic performance of Kenya. Such role is in the form of employment creation and contribution to the exchequer. It provides 600,000 jobs directly (Phombeah, 2000). In economic terms the industry provides annually farm incomes over Kshs 717 million and export earnings to the government of about Kshs 420 million. Revenue to the government in form of taxation is estimated to be over Kshs 7 billion. British American Tobacco (K) Ltd is a major contributor of this revenue. These facts would then justify an academic interest in the firm and make the study be considered of national importance. Anti tobacco lobby groups may also be interested in the findings of the study since tobacco is considered to be a public health priority because of the hazards and economic costs associated with it.

According to Porter and Robinson (2000) a total of internal factors influence the firm's choice of structure and actions and ultimately its organizational structure and internal processes. The development of a firm can be divided into two main sub-categories: internal and external environments. The internal environment comprises factors such as the organization's size, services, the staff, firm, stability, resources both human and financial that affect the firm's ability to meet its objectives. The external environment is similar to the external of the organization.

According to the same authors, the external environment can be divided into three sub-environments: the overall, the industry and operating environments. The overall environment, including factors like regional, national and global, encompasses all any single firm's operating climate. There are sub-environments such as political, technological and ecological

CHAPTER TWO: LITERATURE REVIEW

2.1 BUSINESS ENVIRONMENT

Various authors (Chandler, 1962; Andrews, 1971; Daft, 1986 and Porter, 1998) point out that firms are environment dependent and changes in the environment shape the opportunities and challenges facing the organization. Dess and Origer (1980) have noted that looking beyond the organization's immediate operating environment to the industry to which it competes has long been advocated. Aquilar (1967) argues managers must shift their environmental scanning from the immediate areas the firm competes to the industry as a whole.

Hoskisson et al (1997), show that the external environment plays a significant role in the growth and profitability of firms. Many companies now compete in global rather than domestic markets. Technological changes and the explosion of information gathering and processing capabilities demand more timely and effective competitive actions and responses. Government policies and laws affect where the organization is going to compete. Firms need be aware of and understand the implications of these environmental realities to compete effectively. Strategic decision makers know that understanding their firm external environment helps to improve the firm's competitive position, increase operational efficiency and win battles in the global economy.

According to Pearce and Robinson (2000) a host of external factors influence the firm's choice of direction and action and ultimately its organization structure and internal processes. The environment of a firm can be divided into two main subsets: the internal and external environment. The internal environment comprises factors such as the organization's own competitive capabilities, mainly resources both tangible and intangible that affect the firm's ability to meet its objectives. The internal environment is within the control of the organization.

According to the two authors, the external environment can be divided into three interrelated subcategories: the remote, the industry and operating environment. The remote environment comprises factors that originate beyond and usually irrespective of any single firm's operating situation. There are economic, social, political, technological and ecological

factors. This environment presents the firm with opportunities and threats but rarely does a single firm exert any meaningful reciprocal influence.

The evolution and emergence of strategic management led to new thinking in the area of industry analysis. Porter (1979), propelled the concept of industry environment unto the foreground of strategic management. He states that there are five forces that shape competition in an industry. The industry forces link remote factors to their effects on a firm's operating environment. The five forces comprise: the threat of entrants, threat of substitutes, bargaining power of buyers, bargaining power of suppliers and rivalry within the industry. In a dynamic environment, it becomes increasingly important for firms to understand the industry they are in so as to develop effective strategies to compete and develop competitive advantage. Schneider and Meyer, (1991) in Mwanthi, (2003) stated that assessment of environmental threats and opportunities and organizational strengths and weaknesses are core in developing strategic responses.

Operating environment is also referred to as the competitive or task environment. It comprises factors in the competitive situation that affect a firm's success in acquiring needed resources or to profitably marketing its goods and services. These factors include the firm's competitive position, the composition of its customers, its reputation among suppliers and creditors and its ability to attract capable employees.

2.2 THE CONCEPT OF STRATEGY

Strategy is about winning (Grant, 2000). The external environment of the firm influences a firm's decision and performance, however for most strategy decisions the core of the firm's external environment is its industry, which is defined by the firm's relationships with its customers competitors and suppliers. Strategy therefore determines how the firm will deploy its resources within its environment and so satisfy its long-term goals. For a strategy to be successful it must be consistent with the firm's goals and values, resources and capabilities and the external environment. A good strategy is one that enables an organization to effectively match its capabilities with its environment that is matching the organizations strengths and weaknesses with the opportunities and threats in the external environment.

According to JB Quinn (1980), well formulated strategy helps to marshal and allocate an organization's resource into a unique and viable posture based on its relative internal competences and shortcomings, anticipated changes in the environment and contingent moves by intelligent opponents. Thompson and Strickland (1993), define strategy as the moves and approaches devised by management to produce successful organizational performance. Strategy in effect is management's game plan for the business. They state that managers develop strategies to guide how an organization conducts its business and how it achieves its objectives. They further allude that without a strategy there is no established course to follow, no roadmap to manage by and no cohesive action plan to produce intended results.

Johnson and Scholes (1999) define strategy as the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of resources within a changing environment, to meet the needs of markets and fulfill stakeholders' expectations. Strategy is the link between the organization and its environment. Strategy helps the organization to cope with changes in the environment (Pearce and Robinson, 1988). According to Mintzberg (1987), strategy is a plan, ploy, pattern, position and perspective. It is a plan that can be defined and followed. As a ploy, it can be seen as a move in a competitive advantage game. It is a pattern of consistent behavior logically thought out and as a perspective; it is a unique way of perceiving the world. As a position it is a means of locating an organization in its environment. A strategy is a mediating force between the organization and its' environment that is between the internal and external context.

2.3 PORTER'S FIVE-INDUSTRY FORCES MODEL.

According to Porter (1998), the state of competitors in an industry depends on five basic forces. The collective strength of these forces determines the ultimate profit potential of an industry. The weaker the forces collectively, the greater the opportunity for superior performance. The stronger the forces collectively the worse the prospects for long term profitability, as is the case in a perfectly competitive industry. Whatever their collective strength, the strategist must find a position in the industry where his company can best defend itself against the forces or can influence them in its favor. The Porter's five force model is often used in management literature to assess the competitive environment .The objective of

setting competitive strategy is to seek a position in which these five forces do the firm most good or cause least harm (Porter, 1998 in Song M et al, 2002). The following are the five forces:

Threat of Entry.

New entrants to an industry bring new capacity, the desire to gain market share and often-substantial resources. Beaudan (2001) states that unsuspected new players can change the rules of competition in long established industries. Entry may be by acquisition or green site development. Threat of entry will depend on the extent to which there are barriers to entry. Barriers to entry are factors that need to be overcome by new entrants if they are to compete successfully. These should be seen as providing delays to entry and not as permanent barriers. The barriers to entry include- economies of scale; product differentiation; capital requirements; cost disadvantage independent of size; access to distribution channels and government policy.

Bargaining power of suppliers.

Suppliers are organizations that provide inputs into the industry such as materials, services and labor. The bargaining power of suppliers refers to the ability of suppliers to raise input price or to provide poor quality inputs. Powerful suppliers squeeze profits out of an industry by easing the costs of the companies in the industry. The ability of suppliers to make demands on a company depends on their power relative to that of the company. According to Porter (1998), suppliers are powerful: if the products that suppliers sell has few substitutes; when the industry is not an important customer to suppliers; if the firms in the industry experience significant switching costs when they moved to a different supplier; if it poses a credible threat of integrating forward into the industry's business.

Bargaining power of buyers.

An industry's buyers may be the individual customers who ultimately consume its products (end users) or the companies that distribute an industry's products to the end users. The bargaining power of buyers refers to the ability of the buyers to bargain down the prices

charged by companies or demanding better products' quality. Poor relations with customers can hurt the performance of a firm (Hoskisson et al, 1997).

According to Porter (1998), a group of buyers is powerful if it is concentrated or purchases in large volumes relative to sellers' sales; if the product it purchases from the industry represents a significant fraction of the buyers' costs or purchases; if the products purchased from the industry are standard or undifferentiated; if it faces few switching costs or if it earns low profits. Buyers' power is further augmented if the buyers pose a credible threat of backward integration; if the industry product is unimportant to the quality of the buyers' products or if the buyers have full information.

Threats of substitutes.

Substitutes are products of different industries that can satisfy similar customer's needs.

Mintzberg and Quinn (1991) define substitutes as products that appear different but can perform the same function as another product. Substitutes limit the potential returns in an industry by placing a ceiling on the prices firms in an industry can profitably charge. The more attractive the prices – performance trade off offered by substitutes, the firmer the lid placed on the industry's profit potential. Substitute products that deserve the most attention strategically are those that are subject to trends improving their price performance trade off with the industry's products or those produced by industries earning high profits. The firms need to be aware of how easy customers can shift to substitutes (Johnson and Scholes, 1997).

Jockeying for position.

Firms in an industry are mutually dependent therefore one firm's actions often invite retaliation from competitors (Hoskisson et al, 1997). Rivalry among existing competitors uses tactics such as price competition, advertising, product introduction and increased customer service. Rivalry occurs when one or more competitor feels the pressure or sees the opportunity to improve its' position. The competitive struggle implies lower prices and more spending on non – price competitive weapons. This in effect squeezes profitability out of an industry. Intense rivalry is related to a number of factors; numerous or roughly equal in size and power competitors, slow industry growth, standard products or low switching costs; high fixed or storage costs; high exit barriers and where capacity is augmented in large increments.

Firms need to discover what rivalry is based on, its trend of intensity and how it can be influenced (Johnson and Scholes, 1997).

This study will use the 8-force model as a guide in the analysis of the changes in the industry forces in the tobacco industry. The 8-force model is a modification of the five-force model by Porter. Wheeler and Hunger, (1990) in Waithaka, (2001) argue that the five forces model was developed for developed countries' contexts which are different from developing countries' contexts. An issue that arose later is whether strategic management models developed in other countries can be applied in Africa. Various authors (Osigweh, 1989; Hussey, 1990; Austin, 1991; Aosa, 1997) have postulated management as sensitive to the context in which it is practiced. This suggests strategic management models are advanced in developed countries where strategic management originated, may not be directly applicable to Africa (Waithaka, 2001).

Wiseman and MacMillian (as quoted in Aosa, 1997) accepted Porter's model but grouped the five forces into three categories namely suppliers, customers and competitors. This new classification did not alter Porter's proposition. Wheeler and Hunger, (1990) in Waithaka, (2001) also agreed with Porter but wanted an inclusion of a sixth force "other stakeholders". They argued that this new category would incorporate the relative power of unions, government and other interested parties not mentioned specifically in Porter's model.

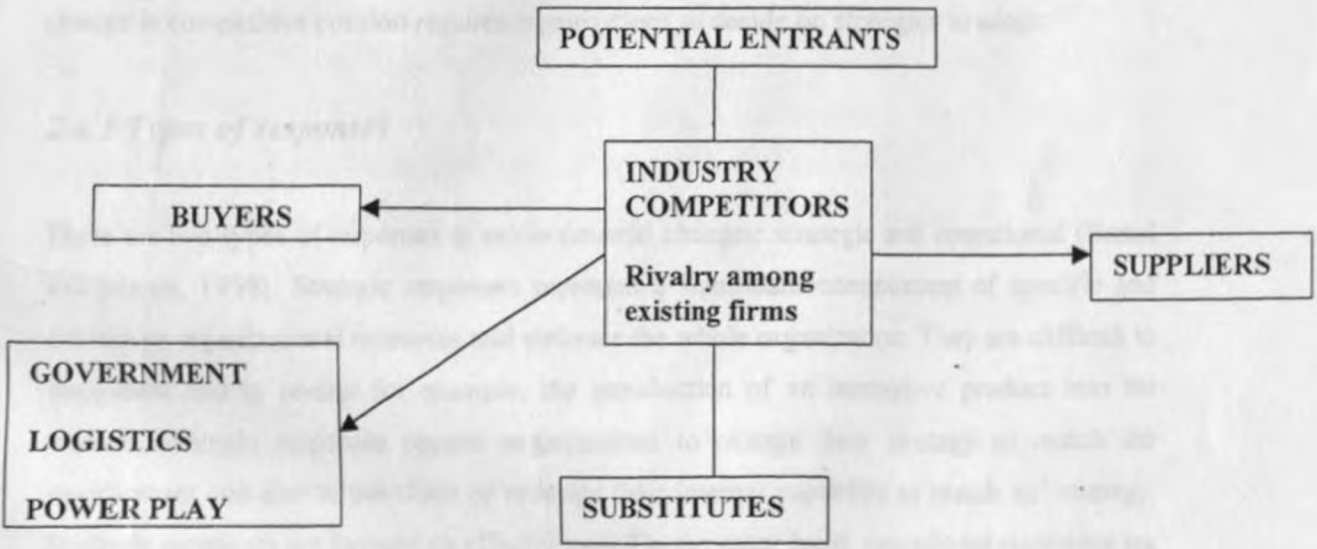
Palvia et al, (1990) in Waithaka, (2001) revisited the issue of the forces that drive an industry. They acknowledged the Porter's five forces. However, they argue that these forces were major determinants of industry competition in the free market competitive economy. Developing countries may not have such economies and therefore the Porter's model needs adaptation. New forces need to be added to the model to reflect extra challenges present in these countries. They suggested addition of two new forces, which are government and logistics. They pointed out that the government in developing countries played very significant roles in the economy. In addition inadequate infrastructure, that is, is a problem that plagues many businesses.

Aosa, (1992) stated that the model is incomplete in respect to one important factor. He found out that managers in Kenya complained of external interference and unfair treatment when carrying out their activities. There were reports of obstruction and illegal competition. All

these factors cannot be attributed to the government alone. He pointed out that individuals in high positions in the government could wield such power that they could flout government policies and controls at will. They did this only when they individually stood to gain. It was his position that such individuals' power constitute a formidable strategic force and should be added to those suggested by Pavlia et al to better reflect the industry challenges in Kenya. He labeled the new force as "Power Play". The Porter's model modified for purposes of this study has 8 forces. To the original five forces three new ones have been added; power play, government and logistics.

Aosa was of the view that the new model provides a more complete exposition to additional challenges that have to be taken into account in crafting strategies for the Kenyan organizations (Waithaka, 2001). The researcher therefore feels that the 8-force model will provide a more comprehensive framework for defining the changes in the tobacco industry in Kenya. The diagram below shows the 8- force model.

Fig 1 :Porter's modified model of industry forces



Source: Adapted with Modified from M.E Porter, (1998) *Competitive Strategy*, page 4

2.4 RESPONSES TO ENVIRONMENTAL CHALLENGES

Aosa (1992) observed that the modern approach to strategic planning has developed as a response to increasing challenges caused by high levels of environmental turbulence. Boynton and Victor, (1991) in Mugambi, (2003) argue that firms need to respond to change with stable and long term yet flexible and responsive process capabilities. Ansoff and McDonnel, (1989) view responses as the activities that either the total organization or its building block carries out so as to handle change. According to them, the role of general management in strategic response is about setting the right climate (will to respond), competence (ability to respond) and capacity (volume of response). They state that the three components are essential if a firm is to implement strategic response.

Hoskisson et al (1997), define a response as a move taken to counter the effects of environmental change. Responses are actions taken by a firm to cope with shifts in the environment. They are actions and decisions that result in the formulation and implementation of plans designed to achieve a firm's objectives. Responses are part of competitive strategies that organizations develop in defining their goals and policies. A change in competitive position requires organizations to decide on strategies to adopt.

2.4.1 Types of responses

There are two types of responses to environmental changes: strategic and operational (Bartol and Martin, 1998). Strategic responses represent a significant commitment of specific and distinctive organizational resources and embrace the whole organization. They are difficult to implement and to reverse for example, the introduction of an innovative product into the market. Strategic responses require organizations to change their strategy to match the environment and also to transform or redesign their internal capability to match its' strategy. Strategic responses are focused on effectiveness. On the other hand, operational responses are taken to fine tune a strategy. They are short term in orientation and involve fewer and more general organizational resources and relatively easy to implement and reverse. These responses have more immediate effects for example price reduction could increase demand in the short run. Operational responses involve change in standard operating procedures and are founded on efficiency.

Effective response is based on shifting a challenger's expectations (Porter, 1985). According to him, organizations should respond in some way as early as possible. Organizations should develop early warning systems to help them make timely responses. The nature of response of the firm is critical in ensuring that the impact of a threat does not adversely affect the firm or make it miss an opportunity. The type and timing of response is then critical. Managers have three major options in responding to environmental influences whether strategically or operationally. These are adapting to the existing environmental influences or elements, attempting to influence the environment favorably or shifting the domain of operations away from threatening environmental elements and towards more beneficial ones (Bartol and Martin, 1998).

The adaptation approach involves changing internal operations and activities to make the organization more compatible with its environment. It essentially accepts the existing environment as given and seeks to develop some rational process for adjusting to it. The firm could do this through buffering, smoothing, forecasting and rationing. Influencing the environment favorably involves attempting to alter environmental elements in order to make them more compatible with the needs of the organization. The organization could do this by advertising and public relations, negotiating contracts, political activity and trade associations. The firm could change the mix of products and services so that it interfaces with more favorable environmental influences in an attempt to shift the domain. It could do this through diversification or by moving out from the current product or service.

2.4.2 Strategic Responses

Ansoff, (1988) observed that firms must adapt new strategies to new environmental conditions. The change in competition will require new strategies that in turn call for reformed organizational capability. Firms in industries that are fast changing respond to changes in different ways. Some may resort to improving current markets and products, divesting or diversifying. Others use techniques that ensure operational effectiveness. However, operational effectiveness is not enough to achieve sustainable competitive advantage. Greenstein, (2001) in his study on technological mediation and commercial development in the Internet access market, also supports the idea that different firms respond

with different strategies to the same opportunities. The following actions, which constitute strategic responses, should be considered to better understand how firms behave when the environment changes.

Generic Strategies

Porter, (1998) reformulated the three generic strategies. These strategies must be taken into account when firms have to change their strategies. The strategic response reflects the firm's competitive position in the industry. To overcome the competitive forces and succeed in the long term, management can select from several competitive strategies: cost leadership, differentiation of focus. *Cost leadership* can be achieved by a firm adopting functional policies and resort to aggressive construction of efficient scale facilities. It can also be done through rehabilitation of the plants and machinery and installation of new plants and machinery if necessary to achieve efficiency and cost reduction. Cost cutting strategies minimize wastage and unnecessary expenditure (Whilington, (1989) in Mugambi, (2003).

Differentiation can be achieved by creating the perception of uniqueness about a product or service (Barman, (2002) in Mugambi, (2003). In a study conducted by Barman (2002), she identified differentiation as a strategy used by non-profit organizations when they were faced with a crowded market. Differentiation can also be created through aggressive marketing campaigns. Rivalry between firms drives them to avoid following what others have done and to stake out their own options (Barman, (2002) in Mugambi, (2003).

Focus strategy is about identification of a particular customer segment, geographical market and coming up with products suitable for that segment. Whilington, (1989) in Mugambi, (2003), observed that this could involve focusing on specific market segment that provide a profitable core of higher margins. Firms should narrow their operations to target specific markets so as to develop a competitive edge.

The Generic strategies are not mutually exclusive as firms can combine strategies. Each of the competitive forces has a likelihood of affecting the selection of a strategy. Firstly, high levels of buyer power will limit the firm's ability to charge high prices as more powerful buyers are able to demand concessions from their suppliers (Scherer and Ross, (1990) in Song et al, 2002). Thus the firm must seek to reduce costs in order to earn above average

profit if buyer power is high. Secondly, a high threat of substitution implies that an alternative product type offers a price or performance benefit and limits industry profitability. The firm can earn satisfactory profits while undercutting any potential competitor on price by pursuing a cost leadership strategy. Thus by reducing the alternative product type's advantage, the firm is protecting itself from attack in the long term (Scherer and Ross, (1990); Porter, (1980) in Song et al, 2002).

The threat by new firms is highest during the high growth phase of the product life as demand increases, new market segments emerge and new entrants stake a claim in the emerging market. At this point the competitive focus shifts from primary to selective demand and firms differentiate their products on attributes deemed important by certain consumer segments (Utterbeck and Abernathy, (1975); Mansfield, (1993) in Song et al, 2002). Competitive intensity is likely to be highest during maturity stages of the product lifecycle, as competition for selective demand intensifies and increasing product innovations are made. Firms seek to differentiate their offerings of focus on protected profitable niches. In order to achieve this competitive strategy a firm needs to focus on unique activities (Porter, 1996).

Collaborative strategies

Firms may enter into collaborative agreements with other players in the industry, either local or foreign. Such collaborations take the form of strategic alliances, mergers and acquisitions, licensing, franchising. Shollei, (1999) argued that in order to fortify a firm's position against predators from abroad, it is important to collaborate. Increased forces towards globalization have pushed more and more firms to seek collaboration with other firms in foreign countries to enable them to compete effectively in those markets. Pooling of resources is necessary since some market opportunities are too massive for a single firm to exploit. Collaboration also reduces the cost of differentiation and enhances competitive advantage (Momson and Lee, (1990) in Shollei, 1999).

Restructuring

It is based on the notion that some activities in a business' value chain are more critical to the successes of its strategy than others (Pearce and Robinson, 1998). Managers need to make the strategically critical activities the central building blocks for designing the organization's

structure. Restructuring includes both process and structural reorganizations such as Business Process Reengineering (BPR), Total Quality Management (TQM), downsizing and outsourcing.

Reengineering is the fundamental rethinking and radical redesign of business process to achieve dramatic improvement in critical contemporary measures of performance such as cost, quality, service and speed (Hammer and Champy, (1993) in Hill and Jones, (2004)). Total Quality Management (TQM) stresses that all company operations should be oriented towards improving reliability of the company's product offering (Dean and Bowen, (1994) in Hill and Jones, 2004) TQM is about continuous improvement in the quality of products or services offered. Instead of focusing on how a company's functions operate, strategic managers make business processes the focus of attention.

Reengineering and TQM are highly interrelated and complementary. After reengineering has taken place and the value chain activities have been altered to speed the product to the consumer, TQM takes over with its focus on how to continue to improve and refine the new process and find better ways of managing task and role relationships (Hill and Jones, 2004). Firms consider outsourcing when they want to concentrate on their core business. Downsizing is about reducing the number of employees. Downsizing helps firms to lower overheads, speed up response time and eliminate red tap (King, (1997) in Mugambi, 2003).

Diversification

Diversification is the process of adding new businesses to the company that are distinct from its established operations (Hill and Jones, 2004). Glueck and Jauch (1990), define diversification as changes in products, markets or functions that can be done internally or externally, horizontally or vertically; and it can involve related and unrelated changes. Diversification occurs when a company decides to make new products for new markets. A firm can pursue either be related or unrelated diversification depending on the scope of its activities.

Related diversification is development beyond the company's present market, but still within the broad confines of the industry. It therefore builds on the assets or the activities that the firm has developed (Johnson and Scholes, 1997). It takes the form of vertical or horizontal

integration. When a business grows by becoming its own supplier the process is known as backward integration and when organizational growth encompasses a role previously fulfilled by a customer then the process is known as forward integration (Bartol and Martin, 1998). Horizontal integration is development into activities that are competitive with or complementary to a company's present product.

Unrelated diversification is development beyond the present industry into products or markets, which at face value, may bear no close relation to the present product or market. Bartol and Martin (1998), contend unrelated diversification entails diversification affecting growth through development of new areas that are clearly distinct from the current business. This helps them to reduce the risk associated with single product or single industry operations. Companies pursuing this strategy lack the ability to transfer or leverage competencies and to realize economies of scope (Hill and Jones, 2004)

2.4.3 Operational Responses

Marketing strategies

Kotler (1998) observes that marketing plays a critical role in the company's strategic planning process. He stated that marketing is the major significant contributor to the strategic planning process. Marketing is seen to be a more durable alternative to increase volume instead of continuously cutting profit margins (Morine, (1980) in Mugambi, 2003). Marketing policies need to be redefined in line with customer shifts for more value adding products or services (Slatter, (1992) in Mugambi, 2003). A firm needs to be constantly in touch with its existing customer base, quickly introduce adjustments to its portfolio as necessary and refocus customer needs. Attention should be given to enable after sale services and authentic features of the product to be provided (Morine, (1980) in Mugambi, 2003). Marketing responses can be in any of the 4Ps of marketing that is product, price, promotion and place (distribution).

Product strategy

Kotler and Keller, (2005) define a product as anything that can be offered to a market to satisfy a need or a want. It is a bundle of different attributes. From the firm's point of view

the product element of the marketing mix is what is being sold, whether it is a service or product. From the customer's point of view, a product is a solution to a problem or a package of benefits. This offering may include a physical good, a service or a blend of both (McCarthy and Perreault, (1993) in Mwangi, 2002). Product strategy could involve issues such as design (size and shape), features, quality and reliability.

A new product development strategy may be either reactive or proactive. According to Boy and Walker, (1990) in Mwangi, (2002) reactive strategies include a defensive strategy; where existing products are adjusted in such a way that they more effectively compete against recently introduced competitive goods and services or an imitative strategy; involves quickly copying the attributes of the competitor's new product. A proactive strategy is one where the firm goes ahead of competition and introduces a new product through innovation.

Price Strategy

It is the only element of the marketing mix that generates revenue. The price set depends on the customers' assessment of the unique product features (perceived quality), competitors, substitute's prices and the actual costs (Kotler, 1999). Kibera (1998) observes that from a marketing point of view price is the value placed on a good or service by customers at the some point in time. Pricing strategies are complex and difficult. Pricing must be consistent with the firm's overall strategy, target markets and brand positioning (Kotler and Keller, 2005). Pricing strategies include cost plus pricing, demand plus pricing, competition oriented pricing, penetration pricing, skimming, odd pricing, geographical pricing and suggested retail pricing strategies.

Place strategy

This strategy deals with how the product is distributed and how it reaches its customers. Successful value creation needs successful value delivery. Marketers are increasingly taking a value network view of their businesses. Instead of limiting their focus to their immediate suppliers, distributors and customers they are examining the whole supply chain that links raw materials, components and manufactured goods and show how they move towards the final consumers. Companies are looking at their suppliers' suppliers upstream and their distributors' customers downstream (Kotler and Keller, 2005).

Place strategy helps in the selection of suitable branch locations and other channels through which to distribute the product and services to customers. It overcomes the time, place and possession gaps that separate goods and services from those who need or want them. (Kotler, 1998). The channels to be used and speed of delivery are important considerations at this point. A firm can distribute the product itself or it could distribute it through intermediary organizations.

A firm could either use pull or push strategy in managing its intermediaries. A push strategy involves the use of sales force and trade promotion money by a manufacturer to induce intermediaries to carry, promote and sell the product to end users. It is appropriate where there is low brand loyalty, the product is an impulse item and product benefits are well known. A pull strategy involves the manufacturer using advertising and promotion to persuade customers to ask intermediaries for the product thus inducing intermediaries to order it. It is appropriate where there is a high brand loyalty and high involvement product category or when people perceive differences between brands or when people choose the brand before they go to the store (Kotler and Keller, 2005).

Promotion strategy

This is the element of the marketing mix that the organization has most control over. Modern marketing calls for more than developing a good product, pricing it attractively and making it accessible (Kotler and Keller, 2005). Promotion includes all the marketing communications effort that let the public know of the product or service. Kotler (1998) summarizes the promotion decisions areas as sales promotion, advertising, sales force, public relations and direct marketing. The aims of promotion are arousing attention, generating interest, inspiring desire and initiating action. Marketing communications allow companies to link their brands to other people, places, events, brands, experiences, feelings and things. It can contribute to brand equity by establishing the brand in memory and crafting a brand image (Kotler and Keller, 2005).

Operation and Technology strategies

According to Pearce and Robinson (2005), the production and operation management is the core function of any organization. The operation strategy is the game plan for the production

of goods and services for the organization. Its aim is to achieve efficiency and effectiveness in manufacturing and service operations. Production and operation management decisions usually determine if operations will be demand oriented or inventory oriented or outsourcing oriented to take a balance of the two.

Operations strategies include decisions on such issues as what new products must be developed and when they must be introduced into production, what new production facilities are needed, what new production technologies and processes must be developed and when they are needed and what production schemes will be followed to produce products or services. The elements of the operations strategy include: positioning the production system; focus of production; product/service plans; production process and technology plans; allocation of resources to strategic alternatives and facility plans i.e. capacity, location and layout (Gaither, 1996).

A technology strategy is one of the central functions for achieving competitive advantage because of the fast paced transformations being witnessed today. Technology intelligence is a must in order to gather information on the dynamic of the technological markets (Hax and Majluf, 1996). The interplay between computers and rapid technology development has made flexible manufacturing systems a major consideration in operations.

Financial strategies

Finance is the most centralized functional area. Final accountability unavoidably resides with the CEO. Financial strategy involves decisions such as obtaining and allocating funds, working capital management, capital budgeting and financial intelligence. Its strategic decisions are in the sphere of corporate decision-making and its performance measures are closely watched by external audiences and embody the economic results of the firm as a whole (Hax and Majluf, 1996). The financial strategies direct the use of financial resources in support of business strategy, long-term goals and annual goals and objectives (Pearce and Robinson, 2005).

Human resource strategies

The human resource function is the most decentralized and pervasive of the managerial functions. The strategic decisions cannot be realized without the full participation and

responsibility of managers and supervisors at all hierarchical levels. The human resource management tactics aid long term success in the development of managerial talent and competent employees; the creation of systems to manage compensation or regulatory concerns; and guiding effective utilization of human resources to achievement of both the firm's short term objectives and employees' satisfaction and development.

The human resource management "paradigm shift" involves looking at the people expense as an investment in human capital. It involves looking at the business' value chain and the value of human resource components along the various links in that chain (Pearce and Robinson, 2005). The major categories of decisions linked to this strategy are recruitment, selection, promotion, placement, rewards, manager and employee development, appraisal and labor relations (Hax and Majluf, 1996).

Procurement strategies

Procurement strategies help in the supply of all the raw materials, supplies and services needed for smooth operation of the firm's business at minimum cost and achieve a high level of service quality. This requires the creation of a special base of suppliers, developing relationships with suppliers, participating in the design of the product and contributing to the resolution of the make vs. buy decisions (Hax and Majluf, 1996). Sourcing strategies provide guidelines about questions such as: Are the cost advantages of using a few suppliers outweighed by the risk of overdependence? What criteria should be used in selecting vendors? How will volumes and the delivery requirements of purchases support operations? (Pearce and Robinson, 2005). The procurement strategy chosen will depend on the answers given to these questions.

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 RESEARCH DESIGN

The research is a case study of British American Tobacco (K) Ltd. The objectives of the study were to establish how British American Tobacco (K) Ltd perceives changes in the industry forces affecting the tobacco industry in Kenya and to determine the responses of British American Tobacco (K) Ltd in addressing changes in industry forces. The reason for choosing the firm was that it has continued to achieve good performance even in a changing environment. The tobacco industry in Kenya is a duopoly. The two firms are British American Tobacco (K) Ltd and Mastermind Tobacco Ltd. British American Tobacco (K) Ltd has been in operation since 1907 and this warrants an academic interest in the firm's operations.

3.1. DATA COLLECTION

The study will use primary data. The primary data will be collected using an interview guide containing both open ended and closed ended questions (see appendix 1). The interview guide has three parts. The first part was used to collect data on the company's profile while the second part collected data on the perception of British American Tobacco (K) Ltd of changes in the industry. The third part provided data on the responses of British American Tobacco (K) Ltd to changes in industry forces. The interview guide provided a structure for the personal interviews. All interviews were tape recorded to enable enlightened reflection subsequent to each personal interview's completion. As observed by Parasuraman (1986), personal interviews have the potential of yielding the highest quality of data as compared to other modes. They also tend to be more flexible. The respondents were various Functional Managers or their equivalents at British American Tobacco (K) Ltd.

3.2 DATA ANALYSIS

The data collected in this study was qualitative data hence content analysis was used. The researcher analyzed the data obtained to identify the perception of British American Tobacco (K) Ltd to changes in the industry and the responses of the firm to these changes. Previous

studies using qualitative approach to firms' responses to environmental challenges have mainly relied on content analysis for example (Bett, (1999); Migunde, (2003) and Njau, (2000).

1. INTRODUCTION

This study examines the findings of the perception of British American Tobacco (K) Ltd a member of the industry towards the operational and strategic responses by the firm to these changes. This was achieved mainly through interviews with middle level managers at British American Tobacco (K) Ltd. Secondary data was obtained from various issues of "Business" in Kenya, American Tobacco (K) Ltd website, magazine, "Business Today" and the "Business" magazine in Kampala Africa and British American Tobacco (K) Ltd annual reports and financial statements 2004. The data material was analysed using content analysis.

4.3 COMPANY PROFILE

This section deals with information concerning the structure of the company and its main items of business.

4.3.1 Ownership of the company

British American Tobacco (K) Ltd is a publicly traded company in the Nairobi Stock Exchange and currently has in total 169,000,000 shares at a par value of Ksh. 10 and a market value of Ksh. 312 as at 17th August 2007. The company's share capital was Ksh. 1,690,000,000.

Table 2: Ownership of British American Tobacco (K) Ltd

Shareholder	Number of shares	Shares held	% Shareholding
Government	3,337	19,999,999	11.8%
Public	15	92,000,000	54.4%
Private	21	21,000,000	12.5%
Total	4,373	169,000,000	100%

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 INTRODUCTION

This chapter documents the findings of the perception of British American Tobacco (K) Ltd to changes in the industry forces and the operational and strategic of responses by the firm to these changes. Data was collected mainly through personal interviews with middle level managers at British American Tobacco (K) Ltd. Secondary data was obtained from various issues of "Vision" the British American Tobacco (K) Ltd internal magazine, "Safari Yetu" the firm's internal magazine for Equatorial Africa and British American Tobacco (K) Ltd annual report and financial statements 2004. The data obtained was analyzed using content analysis.

4.2 COMPANY PROFILE

This section deals with information obtained on the ownership of the company and the nature of the business.

4.2.1 Ownership of the company

British American Tobacco (K) Ltd is a publicly quoted company at the Nairobi Stock Exchange and currently has in issue 100,000,000 shares at a par value of Kshs 10 and a market price of Kshs. 212 as at 17th August 2005. The company is both locally and foreign owned.

Table 2: Ownership of British American Tobacco (K) Ltd

Shareholders	Number of Shareholders	Shares held	% Holding
Kenyans	4,807	39,917,686	39.92
Foreign	25	60,034,446	60.03
East Africa	21	47,868	0.05
Total	4,853	100,000,000	100%

Source: **British American Tobacco (K) Ltd** annual report and financial statements 2004, pg 16 (based on the share register as at 18th March 2005).

Table 2 shows the ownership of the company as at 18th March 2005. It is evident from the table that the ownership of British American Tobacco (K) Ltd is predominantly foreign. The firm is a subsidiary of a UK based multinational company, British American Tobacco group. Foreign shareholders have 60% of the company's shareholding. This could explain why the firm is financially robust.

Table 3: The Principal shareholders and Shareholding.

Shareholders	Number of Shares	% Holding
Molesteech invest BV	60,000,000	60.00
Board of trustees of NSSF	20,000,000	20.00
Barclays (K) Nominees ltd a/c 1256	996,666	1.00
Barclays (K) Nominees ltd a/c 1853	885,000	0.88
Old Mutual Life Assurance co ltd	836,880	0.84
KCB Nominees ltd a/c 144	806,617	0.81
KCB Nominees ltd a/c 769 G	440,187	0.44
Baloobhal Chhotabhai Patel	402,430	0.40
Apollo Insurance company ltd	386,949	0.39
Insurance company of East Africa ltd	336,737	0.34
Others	14,908,534	14.90
Total	100,000,000	100.00

Source: **British American Tobacco (K) Ltd** annual report and financial statements 2004, pg 16 (based on the share register as at 18th March 2005).

Table 3 shows that Molesteech invest BV own 60,000,000 shares that represent 60% of the shareholding. It accounts for the 60% foreign ownership of the company. This has implications on the decision making and voting in the firm since it has majority of ownership.

Table 4: Distribution of shareholders

Shareholding No of shares	Number of Shareholders	No of shares held	% Shareholding
Less than 500	2084	621,301	0.62
501 to 5000	2364	3,836,226	3.84
5001 to 10000	186	1,345,240	1.34
10001 to 100000	186	5,015,626	5.02
100001 to 1,000,000	31	9,181,607	9.18
Above 1,000,000	2	80,000,000	80.00
Total	<u>4,853</u>	<u>100,000,000</u>	<u>100</u>

Source: British American Tobacco (K) Ltd annual report and financial statements 2004, pg 16 (based on the share register as at 18th March 2005)

From Table 4 Molesteegh invest BV and the NSSF Board of Trustees have the majority shareholding of 80% even if they have the least number of shareholders. Majority of the shareholders have invested in shares between 501 and 5000 accounting for 4.46% of shareholding.

4.2.2 Nature of the business

The respondent was asked to briefly explain the nature of that business of British American Tobacco (K) Ltd. The information obtained showed that British American Tobacco (K) Ltd is a tobacco leaf production, leaf processing and cigarette manufacture and distribution enterprise. The firm grows its own tobacco leaves in various parts in Kenya, Uganda and Democratic Republic Congo. Once the leaves are collected about 40% of them are processed at the Thika processing plant and the rest exported. Cigarettes are manufactured at the Nairobi plant and then distributed to all over Kenya. The firm also exports some of its products to African countries and also to Europe.

4.3 THE PERCEPTION OF BRITISH AMERICAN TOBACCO (K) LTD TO CHANGES IN THE 8- FORCE MODEL

The interviewee was asked to comment on the nature of competition in the tobacco industry. The information obtained showed that the degree of competition was moderate. This is because the specific excise tax regime was implemented and this has made it more difficult for unethical players to operate in the industry. The playing field for tobacco manufacturers is now leveled.

The interviewee was asked to comment on the nature of changes that have taken place in the following factors:

4.3.1 Entry of new firms in the industry.

The interviewee was asked to comment on the threat of new firms getting into the industry.

The information obtained from the interviewee was that currently there are two main players in the industry. Last year two firms exited the industry. It is likely that other companies with the resources required may also enter the industry since Kenya is a free economy. The major barriers to entry that has to be overcome by new firms are the prohibitive levels of excise duty that they would have to pay and the uncertainty that is posed by the pending Tobacco Bill.

4.3.2 Threat of substitute products

The interviewee was asked to name some substitute products for tobacco products.

The information obtained showed that “Kiraiko” meaning *roll your own* was the major substitute especially for the low priced segments. *Roll your own* is a cigarette made out of raw crushed tobacco rolled up in ordinary paper or newspaper. Consumers in the low end of the market tend to be price sensitive and easily switch to make price savings.

4.3.3 Bargaining power of suppliers

The interviewee was asked to comment on the changes in the bargaining power of suppliers.

British American Tobacco (K) Ltd obtains tobacco leaves from farmers with whom it has entered into contracts. The firm supports over 8,900 farmers who grow nearly 3, 600, 000 kilograms of green leaf tobacco. The relationship with the farmers is perceived as an excellent one. However, last year *Stancam Tobacco Kenya*, the company's long time export agent had a dispute with farmers. The farmers appealed to British American Tobacco (K) Ltd to intervene and the dispute was conclusively settled.

The main challenges facing British American Tobacco (K) Ltd has been how to manage supply chain related costs at optimum levels against a backdrop of increasing fuel prices which in turn precipitate upward pressure on an array of costs.

4.3.4 Bargaining power of buyers

The interviewee was asked to comment on the changes in the bargaining power of buyers.

Buyers are increasingly demanding higher quality products. Pressure on consumer disposable income is high and therefore consumers prefer affordable brands. Also due to litigation from a former consumer, a one Mr. Mirigu, the market is more aware of its rights. Buyers' tastes and preferences influence their decisions to a very big extent. Personal loans have been aggressively marketed by commercial banks and have had a positive influence on the economy and to some extent have reduced the bargaining power of buyers.

4.3.5 Rivalry among existing firms

The interviewee was asked to comment on the intensity of rivalry among existing firms in the industry.

The response obtained was that British American Tobacco (K) Ltd is operating in a free market and therefore a potential entrant who has the capacity can enter the market can do so. However the initial investment is prohibitive. A considerable threat that British American Tobacco (K) Ltd is facing is aggressive advertising by some of the players in the industry.

The firm has stopped all forms of tobacco advertising on electronic media. They have also stopped all forms of sports sponsorship and incorporated the Ministry of Health warning on all their promotional materials. The rival firms have been using vans with loudspeakers to promote their low priced cigarettes. This has been a challenge especially for their drive brands *Safari* and *Sportsman*.

4.3.6 Influence of lobby groups

The interviewee was asked to comment on the influence of lobby groups on its operations.

The response obtained showed that the tobacco control bill tabled in Parliament is aimed at regulating the tobacco industry. It will effectively ban outdoor advertising, ban any form of sponsorship sports by the tobacco firms and establish a regulatory board to oversee and control the marketing of tobacco products. British American Tobacco (K) Ltd has since stopped advertising on Radio and TV, health warning labels are already incorporated not only on the cigarette packs but also on the promotional and point of sale materials. National Agency for the Campaign Against Drug Abuse (NACADA) has been lobbying so as to create an awareness of the effect of smoking especially on young people.

4.3.7 Influence of infrastructure

The interviewee was asked to comment on the influence of infrastructure on business activities.

Bonded wares/ merchandise is normally weighed at Mlolongo center. The trucks that transport the goods use Mombasa Road that is dilapidated. Security has been a real challenge. Last year a truck transporting cigarettes was hijacked and all the merchandise stolen. As a result the firm suffered huge losses since the trucks carry merchandise worth millions of shillings.

4.3.8 Summary of the perception of the forces

The interviewee was asked to comment on the factor which British American Tobacco (K) Ltd perceives to be most threatening. The response obtained was that the firm considers

legislation and regulation as the most threatening industry force. It sees the increased pressure for the legislation as partly a result of ignorance. Many Kenyans do not know how cigarettes are manufactured and imagine that nicotine and tar are added. This is not the case. Nicotine is in the tobacco leaf itself whereas tar is produced when the cigarette is lighted.

The issue of tobacco regulation is a worldwide phenomenon. It is affecting stakeholders in the tobacco industry world over. World Health Organization (WHO) is increasingly getting involved and donor agencies such as the World Bank and the International Monetary fund (IMF) are demanding the unilateral enforcement of tobacco controls. In some cases donor funds are being failed to the extent that the recipient countries enact such laws. This makes the governments especially those in developing countries want to enact the laws.

Regulation will reduce the consumption of tobacco products as has happened to some firms operating in countries where there is a complete advertising ban. For instance in Norway, when a complete advertising ban coupled with public information campaign on smoking was implemented tobacco consumption was reduced by 9%. However the Kenyan government would have to be careful in evaluating the implications of enacting the law as British American Tobacco (K) Ltd is a major contributor to the exchequer. British American Tobacco (K) Ltd does not think that the tobacco industry is still attractive for as long as the Tobacco bill is pending.

4.4 RESPONSES TO CHANGES IN INDUSTRY FORCES

4.4.1 Threat of new competitors

The interviewee was asked to comment on the responses employed by the firm in coping with the threat of new competitors and the following data was obtained:

The firm believes that any firm wishing to get into industry can do so freely since the market is liberalized. However there are certain barriers a new firm may have to overcome before getting into this industry. The cost of the cigarette manufacturing line is very high. Recently, British American Tobacco (K) Ltd installed a new state-of-the-art cigarette manufacturing line at a cost of 500 million. The line consisted of a cigarette making machine, a cigarette

packer, a packet wrapper and a case filler. The new manufacturing line has enabled the firm to enjoy economies of scale. This cost would be inhibiting for new entrants.

Product differentiation is another barrier. The firm uses high quality tobacco leaves to produce high quality brands. Consumers have demonstrated their informed preferred brand choice in British American Tobacco (K) Ltd superior quality brands.

4.4.2 Threats of substitute products

The interviewee was asked to comment on the responses employed by the firm in coping with the threat of substitutes and the following data was obtained:

The main substitute for cigarettes is “Kiraiko” which means *roll your own*. British American Tobacco (K) Ltd has been applying intense distribution initiatives especially in rural markets for its “fighter” brand *Safari*. *Safari* has been priced in such a way that it appeals to the low priced segments of the market that tend to be price sensitive. British American Tobacco (K) Ltd is also aware of the presence soft drugs in the market that could serve the same needs as a cigarette. So far it has not initiated any response to deal with soft drugs.

4.4.3 Bargaining power of suppliers

The interviewee was asked to comment on the responses employed by the firm in coping with the bargaining power of suppliers and the following data was obtained:

The firm has had a long established partner/ supplier for tobacco leaves- *Stancam Tobacco Kenya*. The relationship with this firm is stable and good. The prices to farmers have been increasing driven by the delivery of good quality tobacco leaves justifying absolute focus on quality production.

Managing supply chain related costs at optimum levels against a backdrop of increasing fuel prices which in turn precipitate upward pressure on an array of costs has remained one of the main challenges facing British American Tobacco (K) Ltd. The company has embarked on a project of managing costs of all non-manufacturing inputs to ensure that it reaps maximum benefits from the global sourcing of British American Tobacco Ltd group. A clear sourcing

strategy has been developed subjecting several commodity suppliers to tenders and performing appraisal of the suppliers on the partnership programme. The aim of this strategy is to reduce costs and improve service delivery. The main procurement strategy applied has been the centralized purchasing system.

British American Tobacco (K) Ltd has begun initiatives to address health and environmental issues of farmers and society at large; it has embarked on a social responsibility initiative to ensure sustainable environmental use through promotion of afforestation in tobacco growing areas to facilitate use of renewable fuel resources for the curing process. In 2003, extension services were commenced to drive quality and yield to step-up farmers' income. This has led to reduction of farmers to staff ratio thereby allowing for better interaction and dissemination of agronomical and general welfare skills to farmers. There has also been a move towards reducing chemical use on farms through integrated crop management methods and best practices in tobacco farming.

British American Tobacco (K) Ltd has outsourced various non-core activities to third party suppliers. Key among this include computer maintenance, security, catering services, shift transport, cleaning services, workshop services, expatriate staff housing and marketing research. British American Tobacco (K) Ltd has been successful in implementing the outsourcing project because of the open and transparent manner in which it has carried out the process. Top-level managers have taken the lead in the entire process from establishing objectives for outsourcing to establishing a sound structure for ongoing management of the relationship. The supplies selection criterion has been clear from the onset and the front line team fully empowered to take decisions regarding the contract.

Outsourcing has helped British American Tobacco (K) Ltd save close to US Dollars 2 million per annum achieved through centralized logistics. Outsourcing was needed to improve service delivery and was seen as one of the ways to ensure customer orders were delivered on-time-in-full all the time. Cigarettes deliveries were outsourced to the distributors. There was also need to ensure both green and dry leaves were delivered on time where they were required to ensure smooth operations and minimal losses in transit and storage.

4.4.4 Bargaining power of buyers

The interviewee was asked to comment on the responses employed by the firm in coping with the bargaining power of buyers and the following data was obtained:

British American Tobacco (K) Ltd continues to provide high quality brands of cigarettes so as to mitigate the bargaining power of buyers. The firm re-launched *SM- Sweet Menthol* with a new pack but the brands taste and flavor were maintained. The pack change reflected results of extensive consumer research carried out in 2002 among *SM* adult smokers, who expressed their desire for a pack that displays the freshness, trendiness and the heritage of the brand. The new pack design incorporated elements that include green and white tones, snowflakes and the initials *SM*.

British American Tobacco (K) Ltd *Sportsman* brand the lead brand in Kenya's cigarette market has been facing extreme pressure from low priced competing offers. The firm has been running a promotion dubbed "*Jenga Jina na Sportsman*". The promotion combines both individual winners and community prizes in a unique promotional format that blends corporate social responsibility with the brand marketing objectives. This promotional strategy is aimed at rewarding loyal customers.

4.4.5 Rivalry among existing firms

The interviewee was asked to comment on the responses employed by the firm in coping with the intensity of rivalry among existing firms and the following data was obtained:

The key marketing strategy is *going for growth*. Promotional activities are carried out to drive both volume and value share of the market. The strategy *going for growth* led to an increase of market share by 3% ending at 76%. Concentration on the drive brands led to a 9% growth faster than the total market. The enhancement of the tax enforcement agencies in Kenya who increased their vigilance and actions against the illegal sale of non- tax compliant products in the market were key in delivering this. This has allowed British American Tobacco (K) Ltd brands to compete on a level playing field vis a vis quality and price. British American Tobacco (K) Ltd had been in lobbying for a leveled playing field and was engaged in regular

discussions with Government officials pressuring for ethical practices among players. Last year the government leveled the playing field in the industry.

4.4.6 Government and lobby groups' action

The interviewee was asked to comment on the responses employed by the firm in coping with Government and lobby groups' action and the following data was obtained:

British American Tobacco (K) Ltd makes an effort to obey the policies and regulations given by the Government. The company is conscious of ethical behavior. Since 1999 the firm went for a self-regulation strategy. They have voluntarily withdrawn from electronic, billboard and other forms of broadcast advertising and now place more emphasis on communication with consumers at the point of sale.

They are also adhering to the international tobacco products marketing standards, a self-regulatory code of conduct. By subscribing to the standards they believe that tobacco products should be marketed in a responsible manner, and reasonable measures taken to ensure promotion and distribution of the tobacco products is directed at adult smokers and not at youth and consistent with the principle of informed adult choice. Some of the stipulations are: no advertisement shall suggest that sporting or athletic success is enhanced by smoking or that most people are smokers; no advertisement shall be placed on television or radio unless each person seeking access to the channel or programme on which such advertisement is placed provides verification that he or she is an adult; no sponsorship shall be provided for an event or activity which bears a tobacco product brand name, unless all such persons sponsored by participants are adults.

The company has opted to remain silent to the pressures being mounted by NACADA (National Agency for the Campaign Against Drug Abuse). It does not see actual need to rebuff yet. NACADA is insisting that no advertisement shall be placed on billboards located closer than 100 meters from any point of the perimeter of a school attended predominantly by youth.

The company has also helped organize and sponsored a retreat in Mombasa for Members of Parliament to discuss the tobacco regulation control bill.

4.4.7 Operational Responses

Manufacturing Strategies

The company has invested in a new state-of-the-art cigarette manufacturing line. The equipment consisted of a cigarette making machine, packer and case filler and operates at a high speed with minimum manual intervention. New modern machinery has been installed, layouts have changed and machinery has been relocated allowing for efficient workflow. Contract manufacturing strategy has been adopted for export brands to increase the volumes manufactured at the Nairobi factory and increase revenue for the business. The aim is to make the factory a center of excellence in East and Central Africa. The selection of the Nairobi factory as the location to produce these brands was based on the quality standards at the plant and cost effectiveness. Currently two brands Benson and Hedges and Rothmans Royals are being manufactured for export to Somalia and Djibouti.

Human Resource Strategies

Staff members are continuously trained to enhance their performance levels as well as to prepare them for the challenges in the operations due to increase in contract manufacture volume, compressed lead times and complexity in operations. Training helps British American Tobacco (K) Ltd use its manpower resources more efficiently which in turn results in improvement of key performance measures in particular manpower productivity as measured by cigarettes produced per man hour.

Distribution strategies

With intensive distribution strategies, British American Tobacco (K) Ltd drives towards excellence in trade marketing and distribution capabilities benchmarking world-class standards elsewhere in the group. Teams in highly competitive zones were strengthened ensuring that training and staff development programmes are conducted strategically throughout the year. The aim of this distribution strategy was to ensure distribution superiority as well as improved quality of coverage and service levels.

British American Tobacco (K) Ltd benchmarks world-class standards elsewhere in the group as far as the marketing and distribution capabilities are concerned. They have implemented a bonus schemes for their distributors and stockists so as to motivate them to attain targets.

Brand Management

The goal for 2005 is to drive quality growth especially for the higher priced brands. Their drive brands are Benson and Hedges, Embassy and Sportsman. Benson and Hedges achieved a double-digit growth in 2004. It is targeted at the top end market consumers and sales success is secured by focusing distribution in the key urban centers as well as brand building and consumer engagement activities during peak sales period. *Safari* is targeted at the bottom end of the market comprised of price sensitive buyers.

Sportsman is intensively distributed particularly in rural markets. The *Jenga Jina* consumer promotion has contributed to the high sales volumes and in 2004 it attracted 6 million entries.

Jenga Jina combines both individual winners and community prizes in a unique promotional format that blends corporate social responsibility with brand marketing objectives. To date, it has initiated 25 projects with 19 already commissioned. The projects include the building of community health centers, cattle dips and communal water supply facilities. The promotional concept itself continues to win awards, most recently awarded the 2nd best overall consumer sales promotion in 2004 by the Marketing Society of Kenya.

4.4.8 Other Responses to Changes in Industry Forces

Social Reporting

British American Tobacco (K) Ltd in 2004 became the first company in Kenya to publish a corporate social report. This stakeholder engagement initiative provided a platform for direct dialogue with stakeholder on various issues. Tobacco farmers, suppliers, government representatives, legislators, special interest groups, NGOs, consumers, distributors and employees attend various dialogue sessions to give their views on the company's social, economic and environmental performance.

The process offered invaluable insight on what the company was doing right, what needs to change and how to partner with its stakeholders to effectively address their concerns on a

wide range of issues including community support initiatives smoking and health, environmental performance and employee relations. The “report to society” capturing the dialogue process and the company’s responses was launched mid year and dispatched to all their stakeholders. The company will sustain the reporting initiative as it seeks to continuously address stakeholder concerns on various issues regarding its business.

Corporate Social Investment

As part of the company’s contribution to socio economic development and community development initiative in conjunction with the East Africa community the company sponsored the 6th East African Jua Kali Exhibition’s role was held in Mombasa. The exhibition’s role was to recognize and incorporate the Jua Kali sector in the mainstream economic planning and development of Kenya.

British American Tobacco (K) Ltd has continued to be a member of the agriculture fraternity and participated in the four Agriculture Society of Kenya shows in Nairobi, Nakuru, Mombasa and Kisumu. The agricultural shows provide a forum for members in the sector to exchange ideas and best practice in addition to sharing knowledge with the public. The company has established botanical gardens at the Nakuru, Kisumu and Nairobi show grounds, which are covered with a variety of indigenous trees. The Company provides security on the VIP’s gates in Nakuru, Kisumu and Nairobi show grounds and refurbishments of the VIP dais at the Mombasa show ground. The total contributions to these and other worthy initiatives amounted to 40 million in 2004.

Corporate Governance

British American Tobacco (K) Ltd is committed to the highest standards of corporate governance and adheres to the good corporate governance set out in the Capital Market Authority guidelines on corporate governance practices by public listed companies in Kenya. The firm believes that the most potent form of corporate governance comes from within, with external guides and codes being overlays to the standards that British American Tobacco (K) Ltd as a group has set for itself.

The board's current membership consists of seven non-executive directors and three executive directors. The Board meets at least five times a year and is responsible for providing overall strategic direction and deciding major corporate actions taken by the company. It reviews performance, takes material policy decisions and gives guidance on general policy. The board is also responsible for the overall system of internal control for the company thereby managing risks that may impede the achievement of the company's business objectives. Responsibility for implementing strategy and day-to-day operations is delegated by the board to the Managing Director and top management team dubbed *The Kenya Strategy Team*.

The main objectives of the study are summarized, discussed and conclusions drawn. The conclusions are in the order of the objectives of the study. The objectives of the study were set to establish how British American Tobacco (K) Ltd perceives changes in the industry forces affecting the tobacco industry and how it determines the responses of British American Tobacco (K) Ltd in addressing changes in industry forces. With respect to these objectives, the study showed that firms cannot remain passive in the face of changing environment. British American Tobacco (K) Ltd has had to come up with strategies to respond specifically to environmental changes.

In the description of British American Tobacco (K) Ltd in changes in industry forces, the firm perceives the intensity of competition in the industry to moderate. There have been few entrants in the industry and it has the firms have exited the industry in the last five years. The company has two major suppliers of tobacco leaves: Sunbeam Tobacco Company. This indicates the bargaining power of suppliers, since it is a one-supplier company as far as tobacco leaves supply is concerned. Buyers are demanding high quality cigarettes and British American Tobacco (K) Ltd is using high-grade tobacco leaves entirely for production of local brands to address consumer needs. The bargaining power of buyers is high even though buyers are few. Buyers are increasingly becoming aware of their rights and are demanding more from the industry by a higher percentage of cigarettes.

British American Tobacco (K) Ltd is operating in a free market therefore entry in the industry is not prohibited, number of new entrants is not numerous but high cost of entry. The barrier does not get high as entry is free but it has stopped all forms of advertising on electronic media but it still an aggressively advertising. British American Tobacco (K) Ltd perceives regulation and competition by the government at the same decreasing industry force. Total product advertising has been for several years the product sales. Various

CHAPTER 5: CONCLUSION

This chapter presents the summary, discussions and conclusions from the research findings. Also include limitations of the study, suggestions for further research and recommendations for policy and practice.

5.1 SUMMARY, DISCUSSIONS AND CONCLUSION

In this section the results of the study are summarized, discussed and conclusions drawn. The presentation is in the order of the objectives of the study. The objectives of the study were one to establish how British American Tobacco (K) Ltd perceives changes in the industry forces affecting the tobacco industry and two, to determine the responses of British American Tobacco (K) Ltd in addressing changes in industry forces. With respect to these objectives, the study showed that firms cannot remain reactive in the face of changing environment. British American Tobacco (K) Ltd has had to come up with strategies to respond appropriately to environmental changes.

On the perception of British American Tobacco (K) Ltd to changes in industry forces, the firm perceives the intensity of competition in the industry as moderate. There have been few entrants in the industry and in fact two firms have exited the industry in the last one year. The company has one major supplier of tobacco leaves *Stancom Tobacco Kenya*. This increases the bargaining power of suppliers, since it is a one-supplier company as far as tobacco leaves supply is concerned. Buyers are demanding high quality cigarettes and British American Tobacco (K) Ltd is using high-grade tobacco leaves entirely for production of local brands to address consumer needs. The bargaining power of buyers is high even though buyers are many. Buyers are increasingly becoming aware of their rights and the alternatives open them as shown by the litigation by a former consumer of cigarettes.

British American Tobacco (K) Ltd is operating in a free market therefore entry to the industry is not prohibited; however new entrants must overcome the high start up costs. The biggest threat that the firm is facing is the fact that it has stopped all forms of advertising on electronic media but its rivals are aggressively advertising. British American Tobacco (K) Ltd perceives legislation and regulation by the government as the most threatening industry force. Total product advertising ban has an adverse effect on product sales. Without

advertising it is difficult to reach their target market-the adult smokers. The government is under pressure from the Breton Wood Institutions to enforce the tobacco legislation. Foreign aid is increasingly being tied to implementation of the tobacco legislation.

The study also sought to establish the responses of British American Tobacco (K) Ltd to changing industry forces.

The firm continues to erect entry barriers for new entrants for example investment in new-state-of-art cigarette manufacturing equipment. British American Tobacco (K) Ltd has introduced new low priced brands into its product portfolio to flank their main substitute product "roll your own". The firm has found it difficult to retain and develop a loyal clientele as a result of not carrying out any advertising and promotion.

The firm has embarked on a global sourcing strategy since dependence on *Stancam Tobacco Kenya* lowers its bargaining power. A clear sourcing strategy has been developed subjecting commodity suppliers to tenders and approval. This has led to reduction of costs. It has also outsourced non-core activities. To address the health and environmental plight of farmers the firm has initiated various social responsibility programmes. The firm has re-launched some of its products and is continuing to reward its loyal customers through promotions. Owing to increased demand for quality products in the region the firm has adopted contract manufacture for export brands. This has lead to reduction in costs of production and made the Nairobi plant a centre of excellence in production.

The marketing strategy has been "going for growth" and British American Tobacco (K) Ltd achieved a 3% increase in growth in 2004 and 4% growth in turnover and profit before tax.

The firm has made its submission about the tabled tobacco bill to the government and is optimistic that dialogue and a common approach to the issue will be the solution to the regulation of the tobacco industry. They continue to support the enactment of a realistic, workable and enforceable regulation that addresses the health concerns of Kenyans whilst taking into account Kenya's socio-economic realities. They believe that an all-inclusive approach would result in the collective ownership of what will ultimately be good legislation.

Improvement of infrastructure and security could contribute significantly to a better operating environment. The on going socio economic integration of the partner states in East Africa

region presents great opportunities for the business especially with the commencement of the customs union. British American Tobacco (K) Ltd has adopted a structured approach to environmental health and safety management in compliance with the group's best practice from all global operations. It supports numerous social responsibility initiatives in Kenya including providing support to the Jua Kali Sector, Agricultural Society of Kenya and afforestation.

The firm actively encourages dialogue and participation of all stakeholders in the company's business through regular team briefings, internal publications, employee surveys and regular meetings with employees and their representatives. The company's employment policy includes commitments to recruit people on the basis of their ability and equal opportunities. The firm in 2004 became the first company in Kenya to publish a "corporate social Report". This stakeholder engagement initiative provided a platform for direct dialogue with stakeholder on various issues.

As a conclusion to the discussions above it is clear that British American Tobacco (K) Ltd recognizes the fact that it is working in a dynamic environment. It also realizes that for it to sustain good performance it has to continually make changes so as to adapt to the environment. The firm sees the need to delight its customers by satisfying their needs and exceeding their expectations. The firm has chosen to adopt a proactive posture.

5.2 LIMITATIONS OF THE STUDY

The organization could not disclose all the details of its operations because information on competition is considered confidential. The industry has few players thus other firms in the industry could use information from one firm for their advantage. The firm was not willing to discuss the nature of its internal environment. The firm was also not comfortable discussing the specific strategies that it intends to use in the future to compete. This limited gathering of relevant information.

The researcher had limited time to carry out the study. It was not possible to visit the Thika leaf processing plant though information about the plant was obtained for the head office.

Also it would have been interesting to visit some of the social responsibility projects that have been initiated but time and money were limited.

5.3 RECOMMENDATIONS FOR FURTHER STUDY

This study was a case study of one firm in the tobacco industry outlining the responses of the firm to changes in the industry forces. Further study could examine the responses of all the tobacco firms to changes in industry forces. Currently the industry has few players in fact only two stable players; in future a study could be carried out on the responses by tobacco firms in an industry with more players.

Another study could focus specifically on the responses of tobacco firms in Kenya to the regulation of the industry once the Tobacco Bill is enforced. Currently the bill is pending debate by Parliament. If and when it becomes an Act of Parliament tobacco firms will have to change their current mode of business. It would be interesting to study the change management strategies that the firms would adopt.

The firm gave the strategies that it is applying in response to the changes in the industry forces. It may be interesting to find out how the firm formulates these strategies. Specifically to determine factors which influence the choice of strategies within the firm.

5.4 RECOMMENDATIONS FOR POLICY AND PRACTICE

The study found out that British American Tobacco (K) Ltd has not had any strategic alliances with foreign companies. The firm should consider having these arrangements because it could overcome barriers to entry of foreign markets. With the pending tobacco bill the firm could consider entering other countries where the government has lenient tobacco legislation and is not likely to modify its legislation in the near future. The firm should strengthen its market position now while there are still two players in the industry. It is likely that in the future there will be new entrants into the industry.

As the firm waits for parliament to debate on the tobacco bill, it could consider diversification as an option. It could go for an unrelated diversification strategy. In the past, when other

governments have enforced legislation on tobacco the profits of the tobacco firms operating in those countries has been adversely affected.

Finally, the firm could enter into a collaborative arrangement with pharmaceutical companies in Kenya and try to come up with drugs that could counter the adverse effects of tobacco smoking. They could contribute finances for research and development of these drugs. This would help to mitigate the campaigns by lobby groups against the tobacco smoking and its harmful effects on health.

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APPENDIX I: INTERVIEW GUIDE

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- 4. How many employees does it have in the company? _____
- 5. What is the nature of your business?
 - a) Cigarette manufacturing only
 - b) Tobacco leaf production and processing
 - c) Cigarette manufacturing and distribution
 - d) Tobacco leaf production, processing, cigarette manufacturing and distribution

APPENDIX 1: INTERVIEW GUIDE

TOPIC: RESPONSES OF TOBACCO MANUFACTURING FIRMS IN KENYA TO CHANGES IN THE INDUSTRY: THE CASE OF BRITISH AMERICAN TOBACCO (K) LTD

SECTION A: COMPANY PROFILE

1. Year when it was established in Kenya -----

2. Ownership of the firm (please tick applicable box)

a) Foreign owned ()

b) ^{locally} Foreign owned ()

c) Partly locally and Foreign owned ()

d) Partly government and locally owned ()

e) Government owned ()

3. Who are the principle shareholders?

4. How many employees do you have in the company? -----

5. What is the nature of your business?

a) Cigarette manufacturing only ()

b) Tobacco leaf production and processing ()

c) Cigarette manufacturing and distribution ()

d) Tobacco leaf production, processing, cigarette
manufacturing and distribution ()

**SECTION B: PERCEPTION OF BRITISH AMERICAN TOBACCO (K) LTD
TO CHANGES IN INDUSTRY**

6. According to you what is the nature of competition in the tobacco industry?

Cut throat

Moderate

Low

Other (please specify)

7. Please state and briefly explain the nature of the changes you consider to have occurred in each of the following factors in the tobacco industry in Kenya.

1 a) The entry of new competitors into the industry

b) Do you think that other companies are likely to enter the industry in the next five years?

Yes No

c) What are the barriers that new competitors would have to overcome in order to enter the industry?

b) How would you describe your relationship with your suppliers?

Excellent ()

Good ()

Hostile ()

c) What key challenges do your suppliers raise?

IV a) According to you how have the tastes and preferences of tobacco customers changed?

b) To what extent do buyers influence your decision?

To a very big extent ()

To some extent ()

To no extent at all ()

12. What strategies have you employed to manage the changing in the following factors?

V a) Please name some of the tactics that industry players have been applying to resist competition within the industry

a) Which tactic is most threatening to you? Explain.

VI Name any other factors do you consider to have significant influence on the operations of the firms within the industry. Explain how they have influenced your firm.

VII Which one of the factors influencing the industry do you consider to be most threatening to you? Explain.

9. According to you is the tobacco industry in Kenya still attractive?

Yes

()

No

()

SECTION C: RESPONSES TO CHANGES IN INDUSTRY

10. That strategies have you employed in managing the changing in the following factors?

a) Threat of new competitors in the industry

f) Responses to government regulations and lobby group interest in the country.

g) How do you think firms in the tobacco industry will respond to challenges posed by inadequate infrastructure?

h) Do you have plans to manage these responses in the future?

THANK YOU FOR YOUR COOPERATION

APPENDIX 2: LETTER OF INTRODUCTION

IRENE NGUNJIRI
P.O BOX 46477 - 00100
NAIROBI

17TH JUNE 2005

THE HUMAN RESOURCE MANGER
BRITISH AMERICAN TOBACCO (K) LTD
P.O BOX 30000 00100
NAIROBI.

Dear Sir,

RE: MANAGEMENT RESEARCH PROJECT

I am currently pursuing an MBA (Masters of Business Administration) degree at the University of Nairobi. As part of the degree, I am expected to carry out research on a given topic. My topic is "Responses of tobacco manufacturing firms in Kenya to changes in the industry: The Case of British American Tobacco".

Your firm is a major player in the industry. I would like to collect data from your firm so as to meet objectives of the study. A marketing or sales manager can supply the data required. Data that will be gathered will be treated with utmost confidence. On completion of the research, a copy of the findings will be availed to you on request.

I look forward to having an appointment with you.

Thank you.

Yours faithfully,

NGUNJIRI IRENE

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