ADOPTION OF MARKET DEVELOPMENT STRATEGY BY KENYA AIRWAYS

BY

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DECLARATION

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

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

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DEDICATION

Dedicated to my daughter Eleanor who provided me with a constant source of inspiration to work hard during my time of study.

ACKNOWLEDGEMENT

I feel duty bound to appreciate many people who were instrumental in helping me complete this project.

Special thanks to my supervisor Mr. Jackson Maalu, for his guidance, support and inspiration throughout the project. My gratitude also goes to all participants in this study for the cooperation they accorded me.

My most sincere and heartfelt gratitude to my to my daughter Eleanor for her patience when mum stayed away late in the night and weekends when i should have been with her. You missed me at an important period of your life and i found no words to thank you. I am particularly indebted to my parents, sisters and brothers for their support and strong belief in continous education, self development and the pursuit of ambition.

I register my appreciation to all those who in one way or another made a contribution to my success during this period.

ABSTRACT

The study was undertaken to investigate and document the experiences of a firm at the peak of market development. This stems from the fact that there have been a number of studies done in the past and have yielded mixed results. The study took Kenya Airways as a unit of study.

The research problem was therefore to answer the questions; What is the extent of market development within Kenya Airways? What factors determine market development? What is the implementation process of market development? To be able to derive this information, a case study design was used. This is because of the very probing nature of a case study that would help achieve the objectives of the study.

The study results gave indications to the extent of Kenya Airways market development, the reasons for market development, the implementation of the said strategy and performance of the firm in light of this strategy. The extent of market development was looked at from the perspective of market development by breadth and mode. Market development mode established that the company largely opened up new routes in 7 countries. In Africa; Republic of South Africa, Djibouti, Mali and Senegal; in Europe, Turkey and in the Far East , Thailand and China.

It was established that choice of market development is mainly due to the strategic intent of the company. In implementation, the major structures included the board, the chief executive, the commercial director and the network planning and strategy division. The

process that the strategy was planned and the chronology of market development since 2003 is given. The performance indicators of the firm have been presented. These indicators include financial, internal as well as customer perspective. The indicators present an all rounded perspective on market development and why Kenya Airways may be considered successful with market development.

The limitations of the study included; the company policy on information outflow, the significant use of secondary data, other factors contributing to performance other than market development and the policy of consolidating the accounts. For further research it was recommended that there should be a study on a firm that has had disastrous results with market development; a study on a number of firms in the same industry and find out their experiences with market development; a study on competitive advantage derived from market development and a study on the impact of market development on the different business units in an expanded firm.

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LIST OF ABBREVIATIONS

VAT- Value Added Tax

USA- United States of America

UK- United Kingdom

KLM- Royal Dutch Airline

LOS- Lagos

DXB- Dubai

JNB-Johanesburg

GDP- Gross domestic product

USD – United States Dollar

GSA- General Sales Agent

MAS- Market Share data

IATA-International Association of Air Transport

B777- Boeing Aircraft 777

CHAPTER ONE : INTRODUCTION

1.1 Background

1.1.1 Environment and Market Development

According to Johnson and Scholes (2002) the survival and success of organizations are influenced by their ability to respond to the following competing pressures. First are changes in the business environment; second, the strategic capability of an organization – its resources and competencies; and third, the cultural and political context – the expectations and purposes.

It is generally accepted in the business environment to talk about constancy of change and that the old certainties of planned growth, predictable sales and stable markets no longer exist (Morris and Brian 1996). This is due to the increase in competition within an industry, rapid technological change, changing consumer preferences and government regulations.

In examining environmental forces and sales trends, top management may conclude that the sales growth, sales stability, or profitability of current markets will be unsatisfactory in the future. Such a conclusion will lead these present better opportunities (Joseph & Gordon 1988). Executives have to make strategic choices that are concerned with decisions about an organization's future and the way in which it needs to respond to the many environmental pressures and influence. This brought about market development, the main strategy direction that Kenya Airways has chosen as its strategic choice. The concept of market development is not new, companies have always expanded their network opening branch offices in new cities, states or countries and these have been recognized as responsibilities that reside squarely at the corporate level.

Market development is where existing products are offered in new markets (Johnsons and Scholes 2002). According to Pearce and Robinson (2001), market development consists of marketing present products to customers in related areas. These customers could represent untapped verticals, virgin geographies or other new opportunities. The company targets new geographic areas, domestically and internally, identifying potential new customer groups, seeking additional distribution channels and developing new locations both domestic and abroad.

Market development involves the firm involving new segments of the same market, or even into entirely new markets. Therefore, there is a greater degree of risk, as the firm does not have the same understanding, knowledge and experience of the new segment/ market. This suggests to some extent, that the firm is more vulnerable to making an inappropriate judgment that could damage profitability. The firm, therefore, needs to decide whether it is worthwhile targeting new markets. What the firm needs to consider is the ability to distribute to new geographical locations (towns, regions or countries), utilization of used distribution channels, reasons why some consumers are not using the product and the different applications for the product that will attract new markets.

A useful starting point is to use the Ansoff's growth strategies that form a useful framework for detecting new intensive growth opportunities (Kotler, 2000). It is important for every organization to develop a strategy for expanding its business. Going through a strategic planning process will help to ensure the best opportunities are identified and exploited in a focused and coordinated manner. Ansoff's Matrix has 4 growth strategies – market development, market penetration, product development and diversification.

The Kenyan business environment is no exception to patterns witnessed in the world. It has been changing over the years with the liberalization of the economy, globalization price decontrol in the 90's that have made oil prices to continuously go up. Privatization of several Government Corporations, Kenya Airways is an example of a parastatal that was privatized and has been financially performing well. There has been a fall of many Airlines like Regional Air and East Africa Safari. The fiscal policy has also been changing from year to year with the introduction of Value Added Tax that took over from sales tax in 1989. Despite being profitable local firms like Kenya Airways pay the government millions of shillings in the form of VAT for services that are hardly ever delivered. Yet their competitors do not face such costs (Daily Nation Tuesday, May 31st 2005).

A good number of firms like Safaricom and Celtel have expanded their network to cover the entire country. Due to environmental constraints a good number of them have had to limit their scope of business to accommodate the not so friendly environment particularly in the post liberalization period. There has been an increase in competition, British Airways and South Africa Airways have for example doubled their frequencies to

Nairobi. The general macro economic down turn and other factors have played a role. However even with such constringent terms, a few firms like Kenya Airways and East Africa Breweries have moved against the current. Such firms have re-invented themselves and swam against the current. Today more and more firms are daring match up.

With a 4.3 percent economic growth in 2004, there is a possibility that the Kenyan economy will grow by more than the 5 percent projected in 2005. The 2004 economic growth only appears high, because the economy has been under-performing for sometime. In 2003, it recorded a growth of 2.8 percent, but a paltry 0.6 percent in 2000, according to the revised statistics. Indeed, the world economy grew by five percent in 2004 and countries such as India and China are growing at 10 percent of GDP (Daily Nation May 31st 2005).

1.1.2 Kenya Airways Company Limited

Kenya Airways is the market leader of the Kenya airline industry, it has dominated the Kenyan airline industry with a 43% market share (see Appendix 3). Since 2003 the firm has opened new markets by starting flights to Capetown, Hongkong, Bangkok, Djibouti, Lumbumbashi, Istanbul, Dakar and Bamako. Apart from the firm's market development strategy, the firm has shown that market development can indeed be a viable strategy. The persistently increasing good financial results by the company attest to this notion. More recently, the company announced a 166% percent rise in profit before tax for the year ending March 2005, against Kshs. 2 billion for the previous year (Daily Nation May

28, 2005). In March 2004, the airline recorded its 11th year of profitable operations after its launch in 1977 without recording profits. It attributed this to among other things the aggressive network and fleet expansion. Financial analysts recommend that given the airline business was a low margin venture, Kenya Airways should continue expanding its route network with a view to increasing its revenue (The East African May 16 –22, 2005).

Kenya Airways' good performance amidst challenges and the uncertainties associated with market development makes the company an interesting case to study. Strategic issues that concern the question of why the company chose market development the extent of market development and the implementation process are of importance. This importance is derived from the fact that, there is inconclusive information from previous researchers, for or against market development.

Thus to understand this concept, it has become necessary to analyze and document the company's experience probably by doing so it would be possible to provide guidelines on market development.

1.2 Statement of the problem

Kenya Airways is the most expanded network of airlines in East African region. Its potential for failure is equal to any other airline that has done so, but also is the potential for success. So far it has been posting good financial results for good period of time. The researcher was interested in finding out what factors influenced the decision of whether or not to start flights to a certain destination was arrived at. When East Africa Safari stopped their flights to Rome, a Kenya Airways director was asked if they would start flights to Rome and he commented that "we do not jump into high volume business but high quality business" (Daily Nation). Like any other airline it faces the challenges resulting from environmental challenges. For example, the government has been putting pressure on Kenya Airways to start flights to Miami. The airline has not started the flights. There is a decision process and factors that affect the choice of employing market development. How it maneuvers, and is able to post good results despite its size, nature of the airline industry and composition is a matter of interest.

As earlier indicated, there is no agreement on the suitability of market development as a strategy. The body of evidence so far provided is mixed. The presence of mixed evidence also means that there is more to the concept of market development than have been empirically evidenced. The problem with previous studies is that they largely used the survey research design to be able to arrive at their conclusion. For example Scott (2003) conducted a highly detailed survey of market development on Thai market for Franchises. The problem that became apparent however is the presence of both negative correlation on performance and market development. Kiilu (2004) conducted a study on growth strategies.

This is despite the fact that the evidence continuously survived with changes in variables; changes of industry, time, period and place affected the result. In such instances, it would be proper to examine a single unit in the light of its circumstances and hence eliminate the problem of changes in variables. This study therefore endeavors to document the airline's experiences with market development.

This entails answering the questions; why did the firm choose market development? What is the extent of market development?. What factors influence the decision to employ market development ?. How has it gone about implementing this strategy?.

1.3 Objectives of the Study

1) To establish the extent to which Kenya Airways has practiced market development strategy in comparison to other growth strategies.

2) To determine which factors influenced the decision to employ market development strategy.

3) To establish the implementation process of market development strategy.

1.4 Importance of the Study

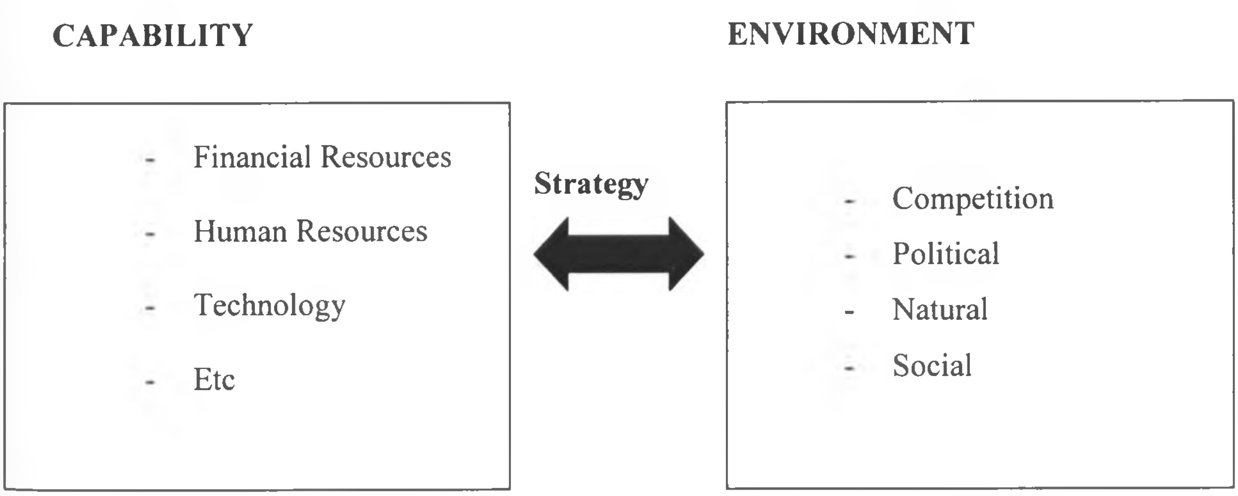
The study will provide insight on how market development contributes to the performance of an organization. This is of particular importance to the shareholders who need not only see the figures but also appreciate intricacies involved in the investment of their resources. The study will also provide an underpinning for management excellence. Practitioners would be most interested and particularly those contemplating market development. Finally for researchers the study shall contribute to the existing literature in Strategic Management and provide a basis for further research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Corporate Strategy

All organizations are an open system. They do not only depend on the environment for their provision of inputs and the disposal of their output to the same, but that they are part of the environment and an integral one for that matter. Thus, for an organization to achieve its objective and ultimately success, realistic approaches that are considerate of the environment must be taken into account (Rue and Holland 1996). Organizations cannot survive let alone succeed if they cannot match their capability to the environmental requirements. The framework therefore that links an organization's capability to its environment is referred to as strategy (Ansoff 1990). Figure 2.1 below helps to illustrate this.

Figure 2.1 Strategy – Capability environment link



Source: Ansoff and McDonnell 1990.

Jaunch and Gueck (1988) view strategy as the framework of choices that helps an organization to respond appropriately to the environmental requirements to achieve success. This is to say strategy is not an abstraction. It indeed requires conscious efforts to achieve it. Where conscious does not mean deliberate but not exclude it. In other words, strategy does not just happen it is caused. Therefore one can say that strategy defines an organization, in terms of its future nature and direction (Johnson and Scholes 1999).

If strategy were defined as above, corporate strategy would then be seen to be concerned with the purpose and scope of an organization as a whole. According to Johnson and Scholes (1999) corporate strategy is concerned with the overall purpose and scope of an organization in meeting the expectations of its owners and add value to the different parts of the enterprise. It looks at the entire firm and specifies the firm's overall approach to achievement of its mission and objectives. It also explores the way in which a firm can develop a favorable portfolio strategy for its activities (Wheelen and Hunger 1989).

In the development of a corporate strategy, the end should be addition of value to the proprietors, or at least where it is not the case; any end should be seen to coincide with this objective. Note, occasionally, the creation of value to the owners is not always the priority. For instance, in cases where firms are run on behalf of the owners, the management may not necessarily work toward the goal of value creation. This has in fact led to the prominence of the agency problem. As will be mentioned later on, some of the corporate strategic moves are not initiated on the basis of merit, but are to say the least, egocentric. In this case, value creation for the owners is not primal. Meeting the top executive's goals, and as such recede the owners interest to a secondary position. However having said that, going by the assumption that the fundamental goal of any firm is to earn a return on its capital that is higher than its cost of capital, the principal concern then is the identification of business areas in which a company can and should participate in order to maximize its long-term profitability (Hill 1987).

This principal concern stems up from the economic imperative of corporate strategy. In this imperative, the essence of corporate strategy is to ensure that the value of the whole firm is comparatively bigger than the sum of the contribution of its businesses as independent units (Hax and Majluf 1996, Porter 1987). This involves competence transferability (coordination of the business activities that allow sharing of assets and skills), economies of scope and of scale and the wielding of market power.

Corporate strategy is composed of three grand strategies i.e stability, retrenchment and growth. Stability strategies are concerned with the maintenance of the status quo and involve stretching what the organization has been doing in the past into the future. Usually, they work well for relatively successful firms that operate in reasonably predictable environments. The implicit assumption is that the conditions existing in such an organization operates probably faces a moderate growth so that the incentives for heavy investment or diversification to other industries is minimal.

Retrenchment strategies on the other hand are concerned with steering an organization back to track. In most cases, the firm might be experiencing or potentially facing a decline in profitability. This can be achieved through turnaround or divestment strategies. In turnaround strategy, the firm puts emphasis on operational efficiency (Wheeler and Hunger 1989). This strategy is appropriate when a firm is in a highly attractive industry and its problems are pervasive but not critical (Wheeler and Hunger 1989). The cause of decline is usually an internal action such as improper strategy selection or poor implementation of strategy. Divestment on the other hand, involves selling major part of the business to consider divestment usually, the problems of a firm are critical and poor performance can be attributed to a business unit or a product line which is unable to synchronize itself with the rest of the corporation (Wheeler and Hunger 1989, Byars 1987).

Finally, when the competitive domains and the growth potential starts to wane, strategic options are either to attempt a more intensive implementation of the current line of business, or to begin to research for more opportunities in other industries or markets (Thompson and Strickland 1990). The objective is to increase the volume of business or expand the scope of the firm's operations, which might be facing threats or opportunities. In such a case, taking this perspective would reflect firm's adoption of the growth strategy and a must choice for a firm that is considerate of its survival (Wheeler and Hunger 1989). Growth strategies are therefore partly a reaction to environmental turbulence besides other factors into other industries (Grant 1998). If the current industry is highly attractive. Concentration of resources on that one industry makes sense.

However if current industry is low in attractiveness, the firm may choose diversification if it wishes to pursue growth strategy (Wheeler and Hunger 1989, Kay 1993). It should be observed that growth strategies could be a reaction to the environmental requirements and or other factors. These factors may border on egoistic tendencies on the part of the top management and mere adoption of copycat strategies that may appear populist in a given industry.

2.2 Ansoff's Growth Strategies

This well-known marketing tool was first published in the Harvard Business review in 1957; Ansoff's growth strategy matrix remains a popular tool for analyzing growth. This is a strategic grid that helps firms identify their future strategic direction, and is often used when the firms are planning for growth. Ansoff's matrix categorizes four separate strategies, but importantly also emphasizes the degree of risk of each approach. To portray alternative corporate growth strategies, Igor Ansoff presented a matrix that focused on the firm's present and potential producers and markets (customers). By considering growth via existing products and new products, and in existing markets and new markets, four possible product-market combinations from Ansoff's matrix presents four main strategic choices – market penetration, market development, product development and diversification as shown below:

Figure 2.2 Ansoff's Growth Strategies Matrix

		PRODUCT	
		PRESENT	NEW
MARKET	PRESENT	Market Penetration Strategy	Product Development Strategy
	NEW	Market Development Strategy	Diversification Strategy

Source: Kotler, P. (2000). Marketing Management, Millennium Edition.

2.2.1 Market Development Strategy

Market development as an approach means that the organization concentrates on the existing range of products but looks at ways of marketing these same products or services into new markets or market segments (This may include overseas market). At first glance, this would appear to be a very attractive option but on closer inspection we can see that the risk involved is higher than both market penetration and product development alternatives. Firstly it is unlikely that a product will move satisfactorily from one segment to another without some form of modification to enable it meet the different needs of a different user group. As soon as we modify product in any way, be it just packaging or presentation, we can expect additional marketing costs of stocking management control, promotion activity and so forth (Paul Fifield 1988).

In the case of market development the organization maintains the security of its present products while venturing into new market areas. Market development can include entering new market segments, exploiting new areas for the products, or spreading into new geographical areas (BanerJee 1999). Businesses that open branch offices in new cities, states or countries are practicing market development. Likewise companies that switch from advertising in trade publications to newspapers or add Jobbers to supplement their mail-order sales efforts are using a market development approach, (Pearce and Robinson 2002). Normally organizations will be selective in their market coverage. This may lead to a situation where there are no future opportunities within the current market segments (Johnson and Scholes 2002).

The biggest single problem, however, comes not from moving into new segments which, by definition, are not as well understood. Since, as we have already seen profits flow from markets and market needs that generate success. There will be a lot of learning to do for the organizations that embarks on a market development activity (Paul 1988).

Just as some companies have good reason to prefer product development, others may have strong preference for market development. In capital-intensive industries many of the company's assets (money, plant and skilled people) will be specially devoted to a technology that produces a particular product or products. These assets cannot be easily switched to produce any other product. In this situation the company's distinctive competency lies with the product and not the market and hence the continued exploitation of the product by market development would normally be preferred.

Most capital goods companies have developed this way by opening up more and more overseas markets as old markets become saturated. A similar argument applies to organizations whose distinctive competence is in Research & Development. The rapid worldwide exploitation of micro-electronic technology is a good example (BanerJee 1999). Exporting is an important method of market development. There are a variety of reasons why an organization might want to develop beyond exporting and internalize by locating some of its manufacturing, distribution or marketing operations overseas.

Typically, management will employ the market development strategy when existing markets are stagnant and when market – shared increases are difficult to achieve because shares are already very high or because competitors are very powerful. This strategy can be implemented by identifying new uses, new geographical markets, or new channels to reach new users (Joseph et al 1988).

Doyle (1994) stated that market development strategy consist of marketing present products, often with only cosmetic modifications to customer in related market areas by adding different channels of distribution or by changing the content of advertising or the promotional media. Several specific approaches are: Opening additional geographic markets (regional expansion, national expansion and international expansion), attracting other market segments (developing product versions to appeal to other segments, entering other channel of distribution and advertising on other media).

According to Blackpool (2002), on an international scale Tescos have successfully ventured into Hungary and Poland. Ford, Sony, Hitatchi, Nissan and many others have successfully established themselves in the European market. However, Marks and Spencers recent, high profile pullout of France suggests that this strategy is not always a success. The major incentive must be to exploit a successful formula in other markets. This can help extend the life cycle of a products or brand, helping to boost profitability and generate funds foe new development. For example, the Tesco trading format has been successfully replicated overseas; as has the McDonald's fast food restaurant chain that is now increasingly penetrating Asian markets such as China. Controversially, many western companies have been accused of dumping old, inferior technology on emerging markets - whereas first world economies have been targeted with the latest technology. In reality this is merely highly profitable business practice, as old technology is milked to make a positive contribution in less customer demanding markets. Products can be repositioned into new segments, generating renewed interest in a brand. For instance, soft drinks such as Lucozade and Tango, as well as other products as mineral water and mobile phones, have all through careful promotion changed their appeal and hence broadened their target market.

2.2.1.1 Market Development Strategy Options

(Pearce and Robinson 2000) gives two main options. First, opening additional geographical markets. This has three options. Regional expansion-This involves opening additional geographical markets within the same region for example within Africa. National expansion - This involves opening new markets within the same country. An example is Safaricom that has been expanding its network within Kenya. Finally, International expansion is when a company opens new global markets and segments. An example is Kenya Airways that has opened markets in all parts of the world.

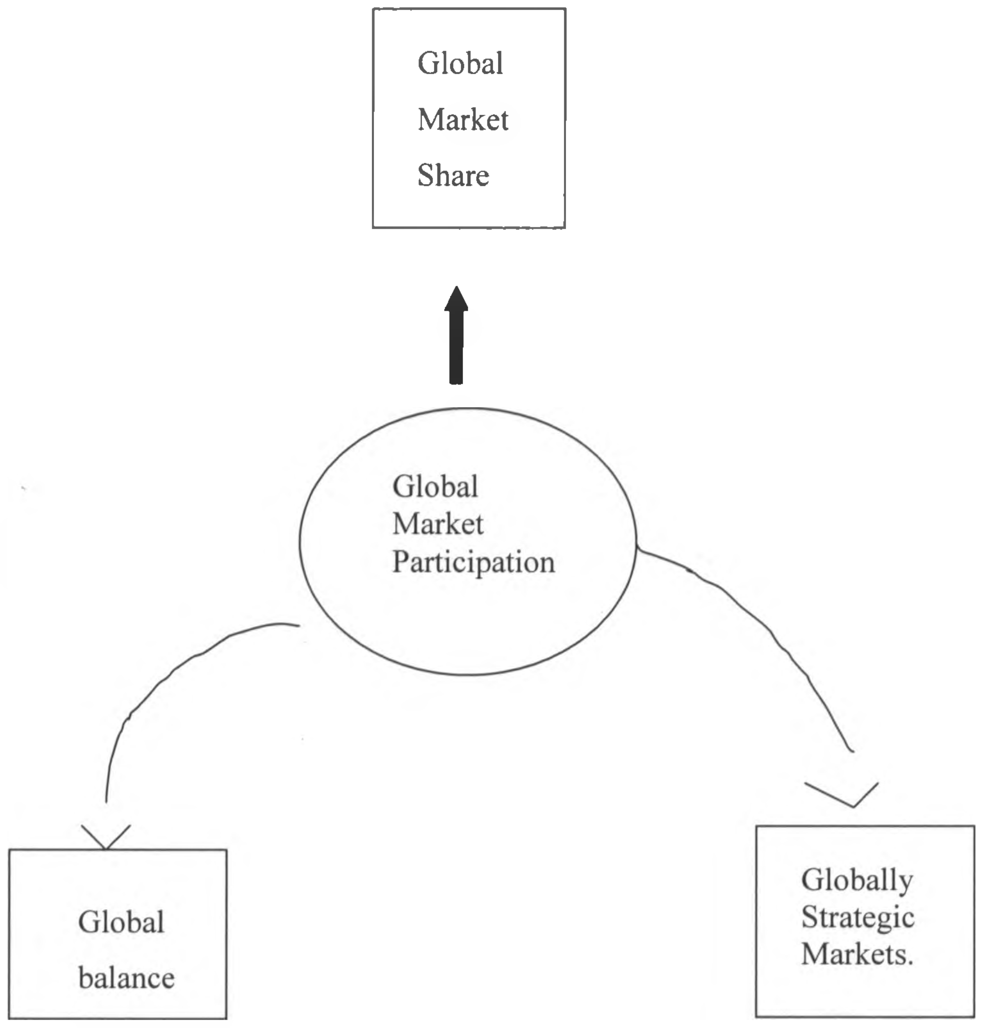
Second, option is attracting other market segments. This could take the following forms. Developing product versions to appeal to other segments ,entering other channels of distribution and advertising in other media. Resource and market considerations might drive an organization's development into new markets (Johnson and Scholes 2002). For example:Whether products can be exploited in other market segments where similar critical success factors exist. Development of new uses for existing products. For example, manufactures of stainless steel have progressively found new applications for the products which were originally used for cutlery and tableware. Nowadays uses include aerospace, automobile exhausts, beer barrels and many applications in the chemical manufacturing industry.

2.2.1.2 Globalization Strategy

In many industries, there are increasing market pressures for globalization and that companies need to know how to respond and have the resources and competences to do so often it is those organizations with small home markets which lead to globalisation. For example in the European Brewing Industry – Heineken (Holland), Carlsberg (Denmak) and Guinness (Ireland) are the most globalized companies.

The benefits of high market share (in a single market) can be even more important in global markets (Johnson and Scholes 2002). For example, by concentrating manufacturing on a small number of locations, both cost and quality benefits may result. High global market share is important, but not sufficient for global market participation. There also needs to be a global balance of revenue within the global market. This is one feature that historically tended to distinguish Japanese companies in global markets from their competitors for examples in the automobile industry, companies like Toyota and Nissan had a significant presence in all three of the major 'arenas' (North America, Europe and Asia Pacific). In contrast, the major American companies (Ford and GM) were strong in two arenas (North America and Europe) whilst the major European players (e.g Peugeot) tended to be strong in Europe. Increase global market participation as against simply selling more goods into a few new countries requires an organization to consider three main issues. These are global market share, global balance and globally strategic markets.

Figure 2.3 Three elements of a globalization strategy



Source: Adopted from G. Yip, Total Global strategy, prentice Hall, 1995, chapter 3.

There is also a need to be participating in globally strategic markets. These are countries that are important beyond their stand-alone attractiveness. This could occur for a number of reasons. For example to be involved in at least one large market may be essential to get the cost structure or experience which is to be exploited elsewhere. It may be necessary to have a presence in the home market of global customers to gain access to, or credibility with their global divisions or subsidiaries. In order to gain advantage over competitors there may be a need to operate in competitor's home countries or the countries where competitors have a major presence.

A market may be strategically important because it is a source of industry innovation – for example, the USA for computer software, Germany for industrial control equipment, or the UK for popular music (Johnson and Scholes 2002). Globalization will usually require some adjustment to product features or development methods for example it may be necessary to use agents or internet selling for new territories whilst sales volumes are low. It will also require other competences. For example in market analysis and language and cultural awareness.

There may be a need to reassess the way in which an organization's structure, processes and relationships are managed. For instance Kenya Airways has practiced the globalization strategy by expanding internationally. Its continued profitable growth requires competence in reducing opening costs of new routes.

Finally in reality market development usually requires some degree of product development as well as competence development organizations also may encounter some difficulties around credibility and expectations as they attempt to enter new markets and market segments (Johnson and Scholes 2002).

2.2.2 Market Penetration Strategy

Lancaster (1998) stated that Market Penetration is a strategy of expanding sales based on existing markets. This is the strategy of penetrating more deeply into the same market. Essentially the same good or service is being promoted / pushed harder onto the same target customer group. This strategy is reliant on the fact that there is some untapped potential to increase sales in the same market. This may mean that customers can be persuaded to buy the product more regularly, switch from a competitor, or encourage customers in the target market who may not have yet started to buy the product to do so. In this cell the producers remain unchanged and no new customer segments are pursued: instead, the company repositions the brand, launches new promotions or otherwise tries to gain market share and accordingly, increase revenue (Kotler, 2000). There is increased product availability and awareness by encouraging current customers to buy more per period, attracting competitor's customers, and/ or convincing non-customers of their need to become customers. This strategy is easiest to pursue in the introduction and growth stages of an industry, as all competitors can grow together and the perceived level of rivalry is low. At the mature and decline stages, however, continued growth comes through taking a share from competitors.

Johnson and Scholes (2002) argue that this strategy is the least risky since it leverages many of the firm's existing resources and capabilities. In a growing market, simply maintaining market share if competitors reach capacity limits. The strategy also probably requires the least amount of finance for expansion, although resources may need to be channeled into promotional campaigns to appeal to and then persuade customers. This could be in the form of advertising, sponsorship, special promotions and even temporary price discounts.

2.2.3 Product Development Strategy

According to Pearce and Robinson (2001), this Strategy involves new products to existing customers. The company grows by innovating, gradually replacing old products with new ones; the firm develops new potential products based on customer wants and needs through new products technologies and developing different product quality levels. This strategy may be appropriate if the firm's strengths are related to its specific customers rather than to the specific product itself. In this situation, it can leverage its strength by developing a new product targeted to its existing customers. Similar to the case of new market development, new product development, new product development carries more risk than simply attempting to increase market share (Gultinan and Madden 1997).

Elgan and Thomas (1998) stated loyal customer are return customers and therefore are very valuable to the business. Many could be very receptive to new products produced by the business. The firm could investigate the ability to add new features to the product, possibility of expanding the product line and possibility of creating a new product for existing markets. New products giving extra benefits based on new features can be the motor for increased sales and market share.

Thompson and Strickland (2001) state that when product life cycle is short – as with software or consumer electronics product development becomes as essential requirement of an organization's strategy. Product development involves substantial modification of existing products or creation of new but related items that could be marketed to current customers through established channels. The product development strategy is often adopted either to prolong the life cycle of current products or take advantage of favorable reputation and brand name. The idea is to attract satisfied customer to new products as a result of their positive experience with the company's initial offering.

2.2.4 Diversification Strategy

Johnson and Scholes (2002) define diversification as a strategy that takes the organization away from its current market or product or competencies. Adapting this strategy entails taking the greatest risk; here, the company markets new products to new customers. There are two types of diversification; related and unrelated. In related diversification, the company enters a related market or industry. In unrelated diversification the company enters a market or industry in which it has no relevant experience. Strategy in diversification growth opportunities is strategy to identify opportunities that would add attractive businesses that are unrelated to the company's current business and the pursuit of the acquisition of additional brands to broaden product offering. Gultinan and Madden

(1997) points that diversification strategy involves the development of the new markets and consequently is the most risky of the four options.

According to Dolye (1994), it is the most risky of the four growth strategies since it requires both product and market development and may be outside the core competencies of the firm. In fact this quadrant of the matrix has been referred to by some people as the suicide cell. However, diversification may be a reasonable choice if the high risk is compensated by the chance of a high rate of return. Other advantages of diversification include the potential to gain a foothold in an attractive industry and reduction of overall business portfolio risk. Whether the firm promotes this strategy will depend on the situation of the market, the business's cash reserves and the skills of staff to take on new product lines. Kotler (2000) stated diversification growth makes sense when good opportunities can be found outside the present. A good opportunity is one in which the industry is highly attractive and the company has the mix of business strengths to be successful.

Finally should firms diversify? Yes, firms should diversify but only for the right reason, which means adding value (Schulz 1999). The history of the diversification phenomenon suggests that diversification was not always pursued for the right reasons. There is likelihood that some of the trend towards increasingly diversified firms was motivated by reasons other than adding value. For example, there was probably an element of fashion in the rise of diversification in the 1960s because of the attention given to certain business leaders who promoted aggressive diversification, consultants, and business school gurus who advocated diversification for all sorts of reasons. Some of these people, the academic Igor Ansoff for example, placed great emphasis on synergy, and were precisely what they thought the ultimate purpose of productive enterprise was. If the enterprise had no clearly defined purpose then of course diversification was as good a means of achieving this purpose as anything else. Other people took on board Ansoff's ideas about synergy and proceeded to oversell them. Firms, therefore, need to be careful about the attractions of diversification and clear about their ultimate purpose in pursuing it.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Study Design

The case study design was the one by which the research was conducted. The case study focused on the Kenya Airways as the unit of study. Most of the previous studies have used surveys to derive their evidence. This calls for a more in depth study to be able to derive the dynamics involved. A case study thus becomes a handy tool since, it does not look at the end but probes the means to the end itself.

3.2 Data Collection

This study used primary and secondary data. The primary data was collected by interviews with the Chief Executive, Commercial Director, Head of Network Planning and Strategy, Manager, Strategic Planning and Manager Schedules and Network Planning. The interviews were conducted using unstructured interview guide with open ended questions . The unstructured interview was used because of the interactive nature of the study. Secondly the researcher was interested in discussing secondary data from other sources with the interviewees. Secondary data was obtained from Annual Report (2004) and Nairobi Stock Exchange (NSE) reports .

3.3 Data Analysis

The mode of analysis was by content analysis. The data collected was qualitative in nature. Any quantitative data to be used would be important in corroborating evidence already existing in the qualitative form. Since only a small number of people were interviewed and the objectives of the study was restrictive to the nature of information required, content analysis was the right tool for analysis. Such qualitative descriptive analyses have been applied in related studies in the past by like Bett (1995) and Thiga (1999).

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter documents the findings of the adoption of the market development strategy by Kenya Airways. The data was collected mainly through interviews with representatives of top management who also provided market studies, annual reports, internal magazines and other journal articles related to the subject of study. They were analyzed to capture the current new routes, the factors that influenced the decision to go into market development and the implementation process.

4.2 Company Profile

Kenya Airways was established in 1977 following the break-up of East African community and subsequent disbanding of the jointly owned East African Airways. The airline endeared itself to the Africans and thus became instrumental in the championing of the african air travellers interests. Since then, the firm has grown to be an aviation giant in the east and central africa region. The firm has won many awards. In 1999, 2000 and 2001, it was voted African airline of the year (African Aviation magazine 2001). In 1999, voted best regional airline in eastern africa (Travel News Magazine 2000). In 2001, it was voted best user of information technology in Kenya by the computer society of Kenya. In 2003, Kenya Airways acquired 49% shareholding in Precision air. In 2004, Kenya Airways scooped triple win as the best domestic airline, best regional airline 2002 –2003 and best inflight magazine 2002 & 2003 by travel news and lifestyle magazine. Thus expanding its focus from the local theme in Kenya to its current vision of being a world class network airline.

Currently it has a market capitalization of 5.5 billion (Table 4) making it not only the largest airline in East and Central Africa but also one of the largest firms in the African region.

It is listed in the Nairobi stock exchange and Daresalaam stock exchange. KLM is the largest shareholder with an issued share capital of 26% followed by the permanent secretary treasury who own 23% of the issued share capital (Table 2). Nairobi is the headquarters of the company. All the directors are located there. The firm tends more to a decentralized structure. Its network of up of 30 destinations / countries with country managers and area managers gives a further indication of this fact.

Table 1 . The Shareholders Profile as at 30 April 2005

	Number Of Shareholders	**Number Of Shares held**	**% of issued Share capital**
Kenyan individuals	82,986	155,352,464	33.65
Kenyan Institutions	2,982	167,405,930	36.27
East African Individuals	42	128,800	0.03
East African Institutions	5	581,748	0.13
Foreign individuals	77	477,133	0.10
Foreign Institutions	6	137,669,408	29.82
Total	**86,098**	**461,615,483**	**100.00**

Source: Kenya Airways Annual Financial Report and Accounts 2004-05

Table 2 Ten Largest Shareholders

		Number Of Shares Held	% of issued Share Capital
1	KLM	120,020,026	26
2	Permanent Secretary Treasury	106,171,561	23
3	Barclays(Kenya) Nominees Ltd A/C 9057 Non Resident	11,565,000	2.51
4	Paul Wanderi Ndungu	9,858,003	2.14
5	Mansukhlal Ketshi Shah	9,386,843	2.03
6	Ketshi Daramshi and Co. Ltd	5,221,944	1.13
7	Mahendra and Co. Ltd	5,056,242	1.10
8	Rameshchandra K. Shah	5,055,094	1.10
9	Shah Mahendra Kumar Ketshi	4,431,267	0.96
10	Apollo Insurance Co. Ltd	3,714,148	0.80
	Total	**280,480,128**	**60.76**

Source: Kenya Airways Annual Report and Accounts 2004-05

4.3 Extent Of Market Development

The decision to go to market development was reached at a board meeting in April 2003. It was decided that the airline was to go into an aggressive network expansion. Since 2003, Kenya Airways has expanded its regional network through development of new markets, frequency expansion and capacity change. This has worked well for Kenya airways. The company's chief executive officer joined the company in 2003. The airline changed it's vision in the same year from to be a world class airline by 2005 to be a world class network airline. This marked the beginning of the company's strategic intent in market development.

However, the success has also attracted new interest to some carriers threatening Kenya airways main markets. For example, Nigeria Airways and possibly Emirates on LOS / DXB and South Africa Airways on JNB and East Africa routes. In order to bolster its regional routes operations and to minimize risks Kenya airways has decided to look for alternative markets. Kenya Airways has expanded its network in terms of the number of new routes that it has opened. Specific new routes have increased. This is besides the market they target. However broadly speaking, the company has opened new routes as shown on Table 3.

According to the airline's head of network planning and strategy, the firm's market development is based on the strategic intent or the vision of the company, to be a world class network airline. The underlying conviction is that, market development should be able to bring growth and subsequently secure healthy and growing returns for the shareholders and gurantee a strong future. This is through increased efficiency of capital use, increasing the market share, utilization of excess capacity, economies of scale and scope and the advantage of market power. The need also to increase dependability with the chain is also a significant reason for market development.

According to the company's manager of strategic planning, the factors that influence the decision to employ market development are.

1) Basic country information. The total country population devided by the total country square area and the percentage population growth determines how a country is populated. If a country is highly populated and or has a high rate of population growth. It implies that there is potential for airline business. High GDP and average GDP growth rate attract airlines to expand into those countries. For instance, Hongkong has a GDP USD 164 billion and an average growth rate of 6% per annum this has attracted Kenya Airways to start operating to the country. Political structure also influences the decision. Countries with political unrest don't attract airline business and vice versa. For instance, Kenya Airways had to stop flights to Somali when political unrest started.

2) Area of sale performance in term of passenger numbers. This refers to the total number of passengers transiting to the region through other points of the already existing network. For instance, Kenya Airways had big volumes of passenger numbers to Istanbul transiting through Dubai, London, Cairo and Amsterdam. That called for the need to start flights to Istanbul.

3) Relevant traffic flows. If the traffic is to and from the untapped market to destinations that the airline already flys to, then the decision to open a new market there is made. For instance, the traffic flow to and from Dakar and Bamako is to Dubai, Bangkok, Hongkong and Bombay. Those are destinations where Kenya Airways already operates and hence the decision to operate to Dakar and Bamako was made.

4) Cargo. This refers to mail, horticulture and other business material. It takes one year for most new routes to break even if they rely on passengers only. Cargo revenue plays a major role in revenue contribution. Markets with a high potential for cargo favour the decision to open a new route. For instance, Hongkong and Bangkok have more cargo revenue than passenger revenue.

5) Airport facilities and services. This refers to whether or not slots for landing and departing are available. Ground Handlers for check in and catering services need to be available at the airport of the new market.

6)Human and financial resources. This entails answering the questions of whether the airline has financial resources to employ staff in the new station and a marketing budget of the new route.

7) Equipment and Crew constraints. The firm evaluates whether the Aircraft and inflight staff to operate the new route are available.

4.3.1 Kenya Airway's New Markets

The results from the study indicate that Kenya Airways is a firm that not only aware of its strategy but understands it. The firm shows conscious efforts in managing its strategy to meet its ends. The presence of a Network Planning and Strategy division and the Company Vision is a good indicator of this. The company has undertaken market development as its main growth strategy. There is emphasis on market development above all strategies since it habors both its vision and mission.

As seen, Kenya Airways has expanded in to many new markets in Africa, Far East and Europe. The performance of the firm is encouraging. Its financial indicators as well as the customer indicators are significantly above average. That is not to mean that there is no room for improvement. As a matter of fact, it needs to work more since the competitive pressures are significantly increasing from day to day.

All in all the company is fast and steadily pushing towards its strategic intent. So far it is the largest and the leading airline in East and Central Africa. It seems its inclined to hold on to that position and working to that end to ensure it is not threatened. The airline has opened new routes in the following chronological order.

Table 3 New Markets that Kenya Airways has opened in a chronological order

Market	**Year**
Far East (Thailand and China)	August 2003
South Africa (Capetown)	October 2003
North Africa (Djibouti)	August 2004
Europe (Turkey)	June 2005
West Africa (Senegal and Mali)	July 2005

Source: Kenya Airways Network Planning and Strategy Division

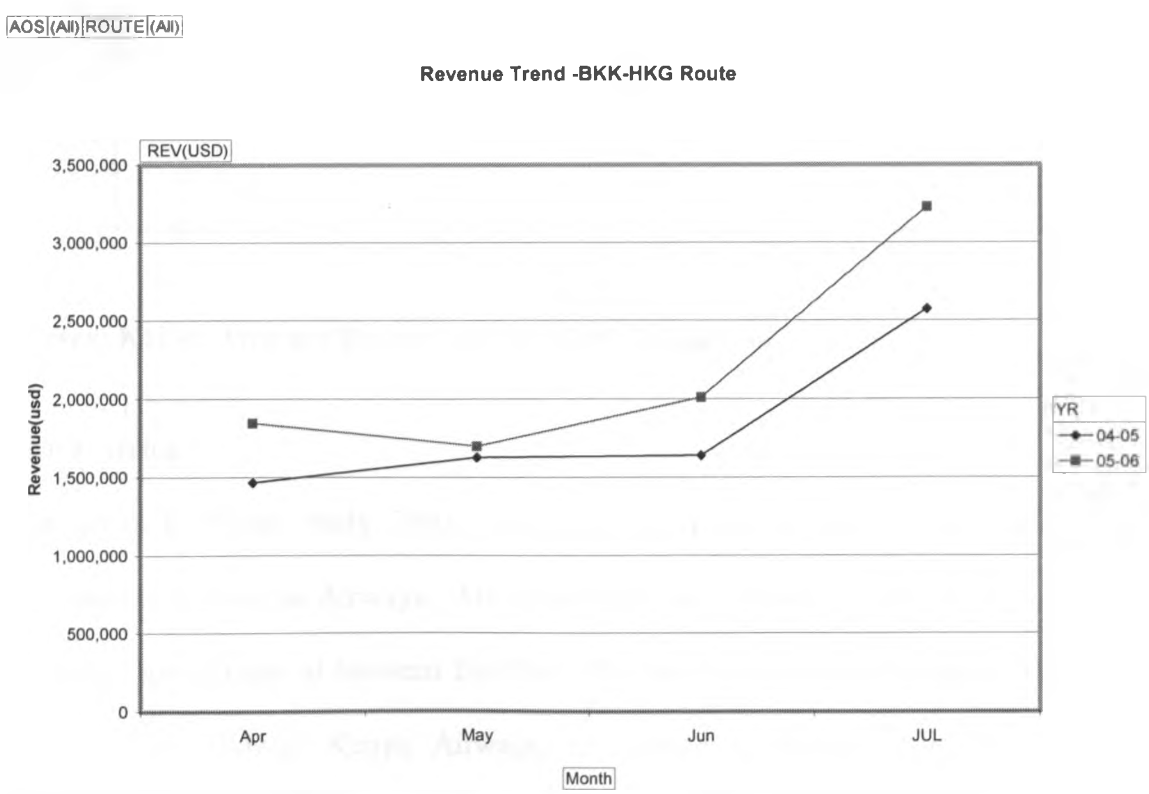
Far East

From the market clustering study carried out in October 2001, China and Thailand were identified as having the largest potential in the Far East. The market research had 3 scenarios; scenario one to operate Nairobi to Bangkok to Nairobi, scenario two to operate Nairobi to Hongkong to Nairobi and scenario three to operate Nairobi to Bangkok to Hongkong to Bangkok to Nairobi. Though scenarios one and two had positive contributions, they were constrained in that they could only support 2 frequencies each. Scenario three was selected, it had the highest contribution per annum and could be further enhanced by 5th freedom traffic. That is if Kenya Airways is given a right to uplift passengers from Bangkok and drop on Hongkong. Cargo placed an important role in making the operations profitable, as the break-even cabin factor was higher than the achievable cabin factor.

In August 2003, the airline started operating with three frequencies per week. The traffic build up and Kenya Airways increased frequencies to four in June 2005. It operates on Wednesday, Thursday, Friday and Sunday to maximize relevant African connections, provide convenient product for the traders and minimize on crew layovers. The schedule for departure and arrivals is aimed at maximizing connections in Nairobi,Bangkok and Hongkong. The bulk of the traffic is from beyond points in China, Japan, Taiwan, Philippines, Malaysia, Singapore and Indonesia. The Airline has cooperated and signed special prorate agreements with Cathay Pacific, China Southern, Air China and Thai Airways. Flight schedules have been synchronized.

The airline has appointed general sales agents (GSAS) in the neighbouring countries of China, Malaysia, Taiwan, Singapore and Australia as these generate traffic. To capture traffic from China, Kenya airways had to be able to sell from China. Kenya airways applied for an operating licence. Most of the region's traffic is composed of Chinese speakers. The firm had to recruit Chinese speaking cabin crew to be part of crew on the flights. The GSA has given Kenya Airways an office plus dedicated reservation staff. Kenya airways staff were recruited to coordinate sales and airport activity. Kenya airways had to join BSP in HongKong immediately to improve their presence in the market. The performance of the route has been good. However serious competition has been the order of the day.

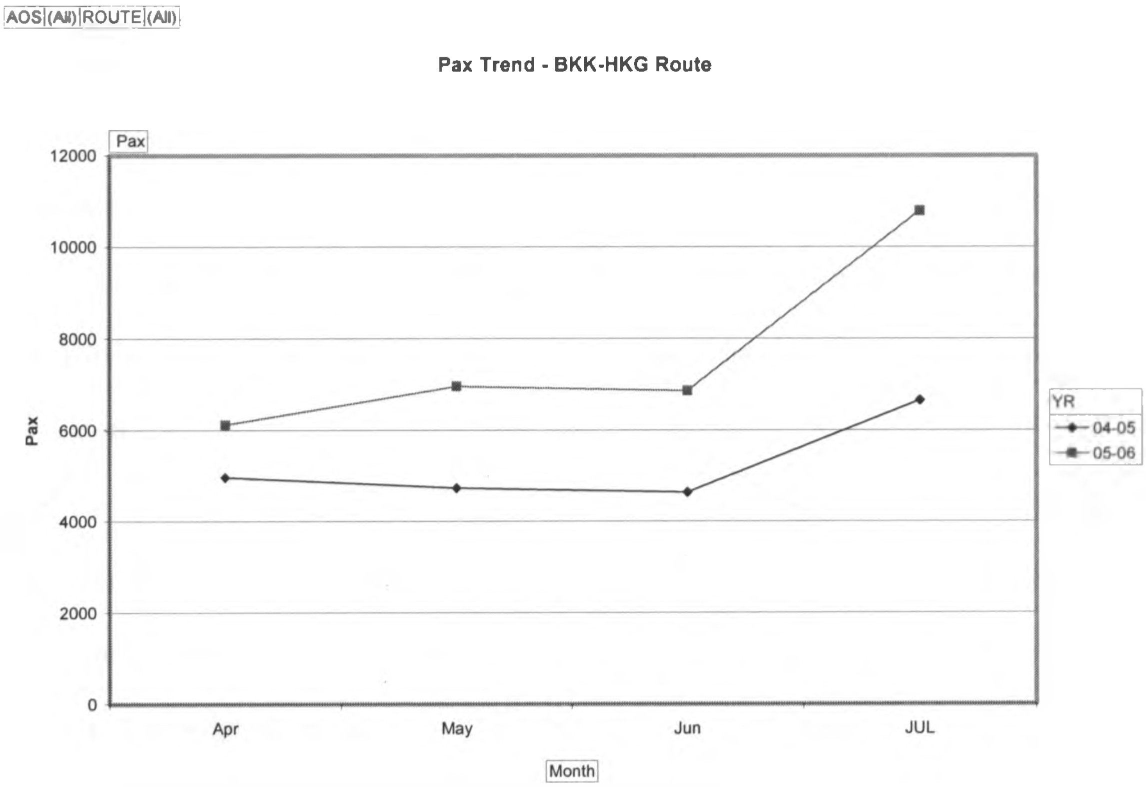
Figure 4.1 Revenue Trend Bangkok Hongkong Route



Source: Kenya Airways Business Performance division

Figures 4.1 and 4.2 show that revenue and passenger numbers for the year 2004-05 are above 2005-06 financial year.

Figure 4.2 Passenger Numbers Trend Bangkok Hongkong Route



Source: Kenya Airways Business Performance database

South Africa

The network cluster study 2002, identified Capetown as one of the high priority destinations for Kenya Airways. MAS data estimates on year (2000 through to 2002) passenger growth rate at between 10-15%. The bilateral agreement between Kenya and South Africa allowed Kenya Airways, to operate to Capetown in South Africa. Capetown is mainly dominated by South African Airways within Africa points and beyond, however their service is via Johannesburg. The traffic streams is composed mainly of the following types of traffic; leisure tourist to and from Capetown, corporate business executives traders travel to purchase merchandise. Religious pilgrims to Hajj. From India students to schools and universities in Capetown.

The traffic flows are mainly to East Africa, West Africa, Northern African, Middle East and Europe. However European traffic to Kenya airways is largely believed to be opportunistic due to the presence of competitors who have direct flights and therefore no emphasis has been placed on it. Southern Africa is not considered a relevant cluster for Kenya airways because Kenya Airways cannot serve the area well through its Nairobi hub, partly due to geographical location and the dominance of South Africa Airways in the region.

The airline started with 2 frequencies with the hope of increasing to 3 frequencies. The traffic didn't build up as per the budget. The performance has been below budget. The airline had to suspend operation to Capetown in March 2005 and will resume in October 2005.

North Africa

A field study was done in March 2004 which involved meetings and interviews with industry stakeholders. They were one travel agent, civil aviation authorities and airport authorities. Secondary data based on MAS was used as a basis of analysis.

The country is a former French territory of the Afars and the Issas became Djibouti in 1977. The economy is based on service activities connected with the country's strategy location status as a free trade zone in North East African.

Kenya airways and Air Djibouti are the designated carriers for Kenya and Djibouti respectively. Route schedule for Kenya Airways is from any points in Kenya through Addis Ababa, Mogadishu to Djibouti, beyond to Jeddah and 2 points in the Persian Gulf and for Djibouti is from any point in Djibouti through Addisababa to Nairobi and beyond to Entebbe, Bujumbura, Kigali.

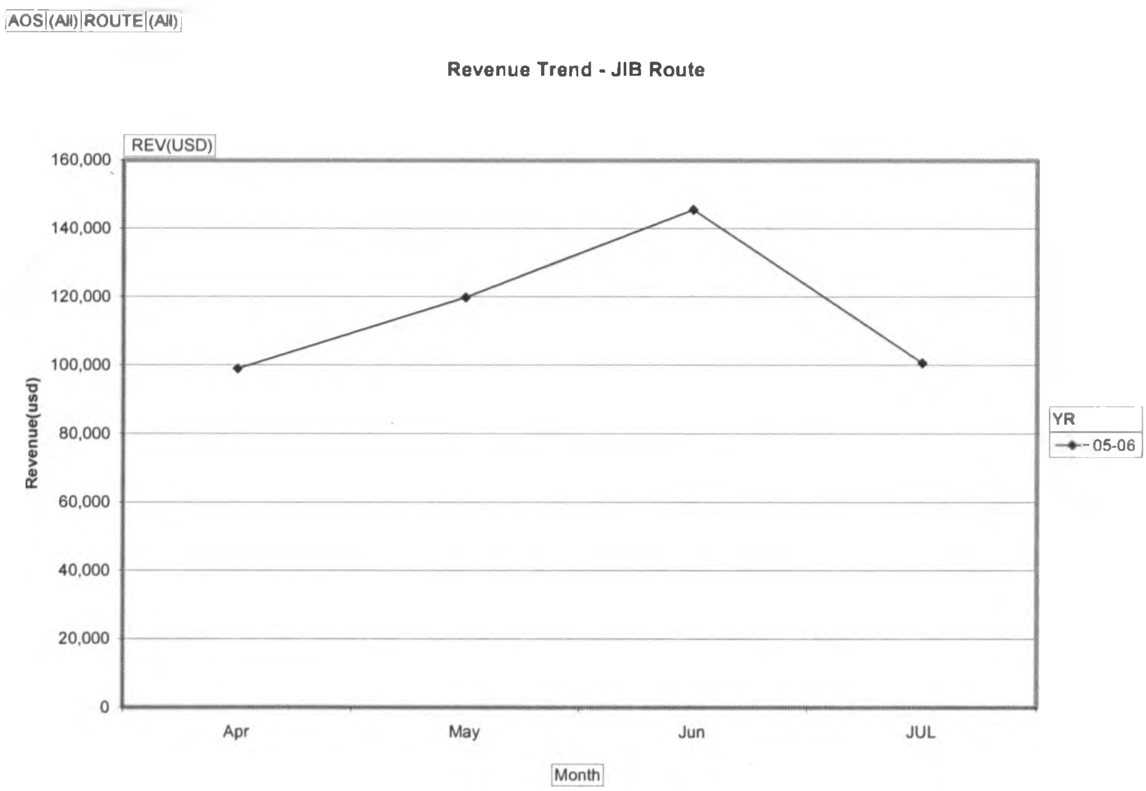
There is only one IATA Travel Agency in Djibouti who is also the Kenya Airways GSA. The traffic flows are to Eastern Africa, Europe, Middle East, Southern Asia, Southern Africa and Western Africa. These markets have significant traffic between Djibouti and those areas. The Nairobi hub offers some competitive advantage to Kenya Airways such as shorter connections to these areas.

The market research had 3 scenarios; Scenario 1 Nairobi to Djibouti direct operations, scenario 2 – Nairobi to Djibouti via Addisababa and Scenario 3 Nairobi to Djibouti via

Addisababa and considering other feeder traffic. Scenario 1 and 2 were found unviable due to low cabin utilization hence found unviable to warrant Kenya Airways online operations. Scenario 3 was implemented due to good cost and revenue projections.

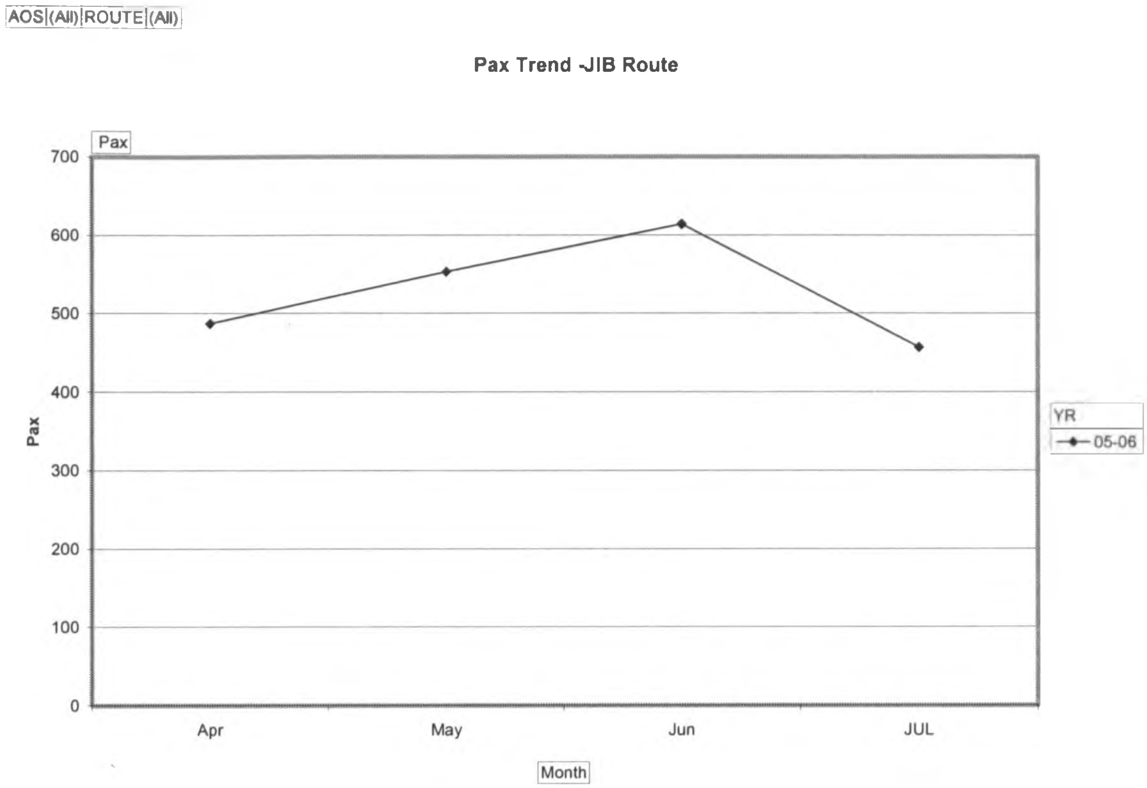
According to Figures 4.3 and 4.4, the revenue and passenger numbers for the route have been fluctuating. The figures increased between April and June 2005 and then started declining in June and July 2005.

Figure 4.3 Revenue Trend Djibouti



Source: Kenya Airways Business performance database

Figure 4.4 Passenger Numbers Trend Djibouti



Source: Kenya Airways Business performance database

Europe

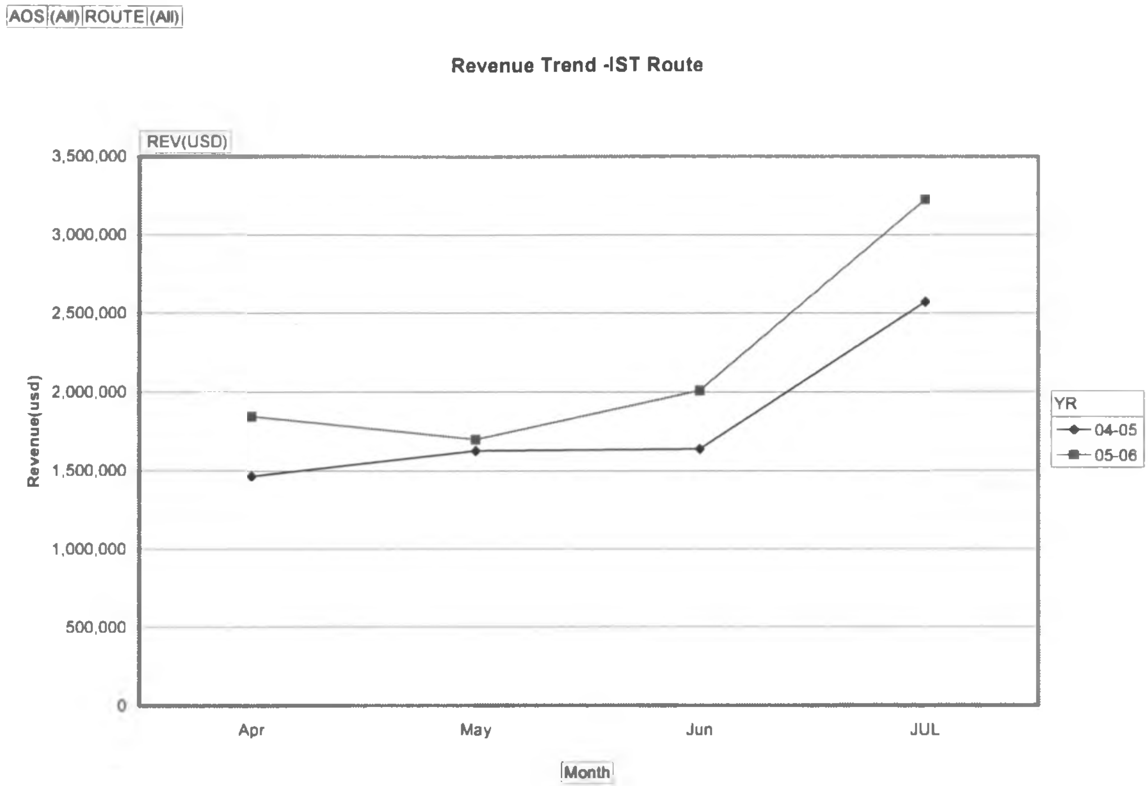
At the new dawn worldwide Kenya Airways sales conference held in March 2004 (Seychelles). Istanbul was identified and prioritized as a quick win destination in Turkey. That was in line with Kenya Airways expansion strategy (growth model) with fleet modernization and delivery of B777 starting June 2004.

A market research was conducted with two options. Option one was Nairobi to Istanbul via Cairo and option two was to operate Nairobi to Istanbul via Dubai. The Airline decided to operate to Istanbul via Cairo three flights per week on Wednesday, Friday and Sunday. Intensive marketing of the of the route has been going on since May 2005. Kenya Airways has also contacted Kenya tourism board to sell Kenya as a Tourist destination. KLM was selected as the general gales agent for Kenya Airways in Turkey.

The bulk of the traffic to and from Turkey is in Europe, Middle East Southern Asia, Johanesburg, Capetown and Cairo. Turkey's traffic type is 70% Leisure and 22% business traffic. The business traffic that is mainly traders and seamen from mainly from West Africa and South Africa. The leisure traffic is mainly from Sedney, Johanesburg and Nairobi. Student traffic from Turkey study religious education in East Africa Mainly Nairobi and Daresalaam. Similarly a lot of students undertake secular education in Turkey under the sponsorship of Islamic Development Bank.

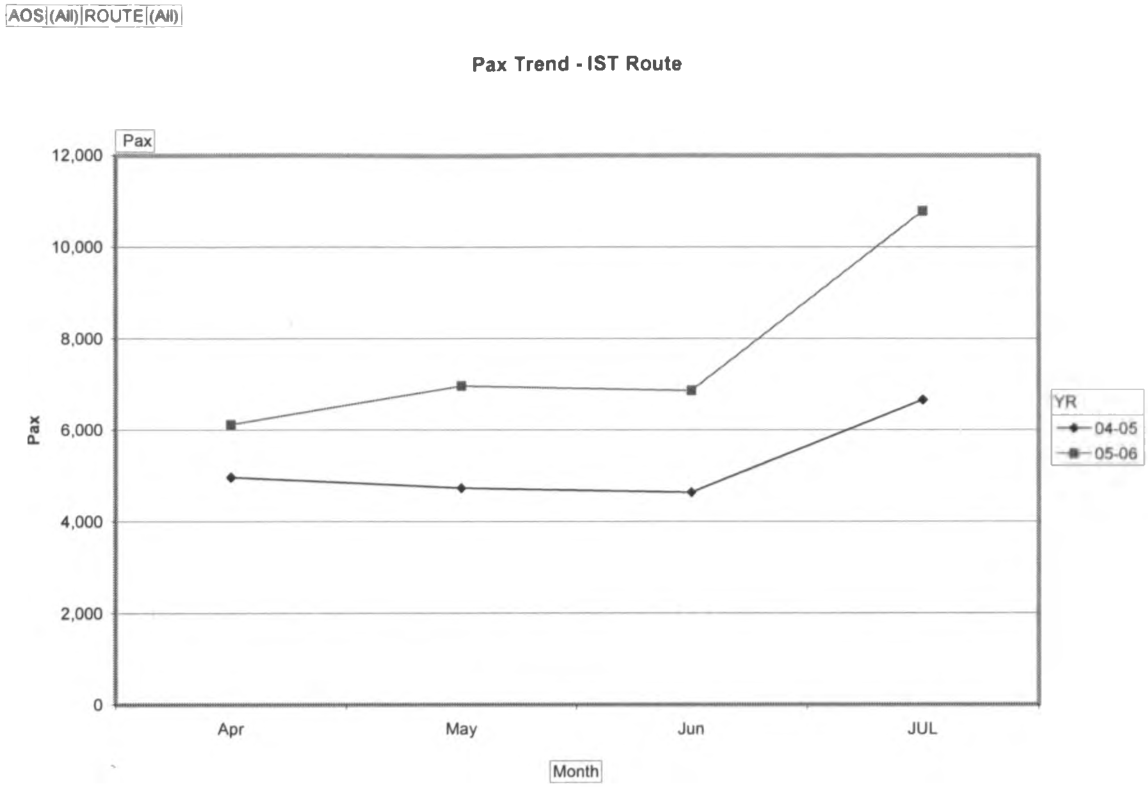
Kenya Airways has a competitive advantage because they have not faced competition in Africa network connectivity. The route has been performing well. Cargo has played a pivot significant role in the market and the main cargo traffic is West African traders. Figures 4.5 and 4.6 show that the revenue and passenger numbers on Istanbul have been increasing since June 2005.

Figure 4.5 Revenue Trend Istanbul Route



Source: Kenya Airways Business performance database

Figure 4.6 Passenger Numbers Trend Istanbul Route



Source: Kenya Airways Business Performance database

West Africa

In line with the company's network expansion strategy, the spotlight was turned to West Africa to establish whether opportunities lie therein. Key players in this market are Airfrance, Sabena Brussels, Air Senegal, Royal Air Moroc and Bellview. Ghana Airways once a major player, is plagued by mismanagement, which has eroded its service delivery. Emirates, Qatar airways and Ethiopian airways have their eyes glued to this region.

The options researched in the feasibility study were to operate Nairobi to Freetown via Lagos, Nairobi to Conakry via Lagos, Nairobi to Freetown via Accra, Nairobi to Dakar via Abdijan, Nairobi to Dakar via Bamako and Nairobi to Bamako via Abdijan. After a feasibility study was done by the airlines Strategic Planning division, Nairobi to Dakar via Bamako was found to have the highest positive contribution and hence this was the option selected for implementation.

Bamako and Dakar were considered lucrative routes and the airline started flights in July 2005. The Airline flys twice a week on Fridays and Sundays. The success of the route will take some time as it will depend on the ability to create and maintain new traffic. The main traffic is from Dakar and Bamako destined for the Middle East and the Far East. The route is two months old and has been making profits as it produced a net contribution of Kes 1.5 Million in the month of August 2005 (operating results August 2005).

4.4 The implementation of Market Development

According to the firm's head of network planning and strategy, the organization's structures and systems have been involved at different levels and stages of the strategy. In the stages that include formulation, implementation and evaluation. It is mainly the board and the network planning and strategy division who were involved. On the other hand, at the levels of implementation that include tactical planning and operations, the commercial, engineering and operations departments are involved.

The role of the board is to determine the company's direction and strategy, to monitors the achievements of business objectives and to ensure that the company meets its responsibilities to the share holders. The board approves that a market research can be done on a market. The network planning and strategy division conducts the feasibility studies on all potential new markets. The research project is presented to the chief executive who then presents it to the board. The board can either approve or disapprove. If the board approves opening of the new route is implemented.

4.41 Factors that influence implementation of market development

According to the airline's manager of strategic planning, there are three main factors that facilitate and hinder the implementation of market development namely commercial, operational and support factors. It is important to note that if all the following are not done efficiently and effectively they hinder the implementation and the vice versa facilitates implementation of market development.

1) Commercial Factors

i) The strategic planning division does and distributes a field study to the relevant people. Then they distribute traffic flows by region and destination to the entire company's outstations.

ii) The government and industry division obtain an operating permit from the government of the respective market.

iii) The schedules planning division prepares a schedule and ensure that it is finalized and filed in the system.

iv) Sales ensures that a general sales agent is recruited and that a country manager and a station manager for the airport are recruited .

v) Marketing has to prepare and communicate approved launch budget and launch plans for each area of sale. They have to undertake all advertising and marketing activities for the route.

vi) The revenue management division decides on all fares for the route, ensures that they are filed in all the systems and all the Kenya Airways sales offices have them.

2) Operational factors

i) The flight operations division has to obtain landing permit, define the routing and define the fuel handler and supplier.

ii) The crew scheduling division confirms crew availability for the operation. Establishes hotel accommodation for the crew and recruit crew. For Example, in Francophone countries they recruit French speaking crew.

iii) Ground handling division identifies a suitable ground handler, negotiates and finalises an agreement.

iv) The safety and security divisions carry out all destination audit and security assessment respectively.

v) Catering division ensures catering fits in with the culinary requirements of the customers.

vi) The cargo division provides cargo rates to all sales offices. Evaluates general sales agents capability on handling bills stock and warehouse availability.

3) Support services

i) The information services division ensures the General Sales Agent office has relevant Kenya Airways systems and network in place.

ii) The finance division confirms that the start-up budget is in place, opens a bank account in the new market, and ensures adequate uniforms are in place.

iii) The technical division carries out technical audit and handling capability.

iv) Human resources facilitates recruitment of sales and station managers in the new market.

v) The legal section appoints company lawyers in the new market.

If all the above factors are on track and finalized in good time, they facilitate the implementation process. If they are incomplete, no progress, decisions are not taken in good time or deadlines are not met then they hinder the implementation process.

4.5 The results of market development

Market development can be checked against a number of factors to determine how successful it has been. Financial results are the most significant, they may give an indication of good performance. An all rounded perspective is more accurate. In this case, financial results and customer perspective have been used.

4.5.1 Financial Performance

Since financial results tend to be more operational in nature, one can trace the strategic element by checking the trend over a period of time. Usually three years and above one would get a better picture since short term manipulation of the financial position can not be sustained over a long period of time. Table 2 shows the firm has been performing well over the past 3 years.

Table 4. Three year financial summary

Year	**2005 Kshs Million**	**2004 Kshs Million**	**2003 Kshs Million**
Turnover	42,234	30,984	27,461
Expenses/Costs	36,714	28,909	26,705
Profit before Tax and minority	5,520	2,075	756
Profit after tax	3,882	1,302	400
Dividends	577	346	231

Source: Kenya Airways Annual Financial Report and Accounts 2004-05

Table 5. Percentage Marginal increase in Financial Figures

Years	2003-04 Kshs Million	2004-05 Kshs Million
Turnover	12.8	36.3
Costs	8.2	26.9
Profit before tax	163	166

Source: Kenya Airways Annual Financial Report and Accounts 2004-05

From Table 5, it is apparent that as the group has continued to expand in terms of market development. The turnover has also continued to grow. However as shown on Table 5, the margin increased significantly in the period between 2004 -05. This increase coincides with the aggressive network expansion of opening new routes. In both Tables 4 and 5, an increase in profits is seen. The marginal increases in profits are quite encouraging.

Table 6. Shareholders funds (Continued next page)

Years	2004 Kshs	2005 Kshs
Earnings Per Share-Basic	2.82	8.40
Earnings Per Share-Diluted	2.82	8.40
Dividend Per Share	0.75	1.25

Years	**2004** **Kshs**	**2005** **Kshs**
Final dividends – Proposed	346	577

Source: Kenya Airways Annual Financial Report and Accounts 2004-05

According to Table 5, the basic and diluted earnings per share are the same as there were no potentially dilutive shares outstanding at 31 March 2004 or 31 March 2005. Earnings per share, final dividends and dividend per share have increased in the period 2004-05.

It is worth noting that the company's financial statements are prepared in accordance with International Financial Reporting Standards. The financial statements have been prepared under the historical cost convention as modified by the carrying of certain financial instruments at fair value.

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

Going by the indicators provided, the firm's market development seems to have gone and held well. The financial results over at least three years have indicated that the company has been able to have positive returns.

Market development is mainly responsible to the performance of the firm. There are also other factors that contributed to the performance of the firm. For instance, revenue generation, cost reduction and above, excellent in operational efficiency. Competence sharing and transfer, high level of communication and coordination take place between the entire Kenya Airways. This is probably why the company has adopted common functional departments to help in this. To this end one can see or easily identify the new routes and markets as being part of the whole. Also, the cross business benefits are part of the package that indicates the synergy created as a result of market development. This has had a positive impact on total performance of the company. All the new routes are not at par in regards to performance even though the management style and policies are almost the same. Different environmental conditions determine the performance of any unit or product.

5.2 Recommendations

Though the company has so far been successful with market development, there is increasing need for caution as they further expand their network. This is because, as seen in many other market development, it is difficult to have competences in every area of investments. This is demonstrated by the performance of routes like Capetown that the airline had suspended.

5.3 Limitations of the study

Information availability was restricted. The company policy on information outflow could allow for free exchange of information with the respondent. This inhibited the provision of information. Further to this, only three respondents were available for the interview. The significant use of secondary data some of which do not give the specifics that is of interest for the study, was used. In that nature, it was not possible to get deeper in enquiring especially given the very fact that the respondents would not be willing to go deeper into the confidential areas.

Market development alone is not the only factor contributing to positive results. Other operational efficiencies may contribute to the success of the company. There is therefore a blurred demarcation between the results springing from market development and those resulting from operational efficiencies.

5.4 Suggestions for further research

There are many conceptual issues that arise from the study of market development. Some are controversial and almost impossible to reach a consensus while others are easily agreeable. There are a number of studies that have been conducted in order to investigate the relationship between market development and performance. The only problem has been the result of such studies have been divergent as the number of studies done. It therefore adds no value to add one more to the already congested controversial area. As with this study the focus is on the different elements of market development and how different units have handled market development.

Since this study used a firm that has so far been successful with market development, it would be interesting to study a firm that has not had good result with market development and much more a firm that has had disastrous results with market development. Probably by so doing, the conclusions of the study would help in indicating to things that are not to be done in market development. More insight could be derived from that and help in understanding some of the reasons that have led to the firm failing with market development and by extension reflect on the same to the studies that have been done.

Another area of interest would be to find out if there is competitive advantage derived from market development. Firms are able to excel if they posses competitive advantage over and above that of competition. This is unless a firm exists in imperfect competitive environment, a situation that is becoming rare considering the nature of the world today and the tendency towards becoming a global village. In this study, if it were true that market development creates competitive advantage, what would be the specific part of the market development that causes such an advantage?. And secondly, how would one tell out an advantage due to market development and that due to other factors?. If there is no advantage created, one would want to find out for instance, why a new business unit linked to an excelling firm would have similar tendency.

Since this study focused on an individual unit of study by design, it would be interesting to study a number of firms in the same industry and find out their experiences with market development. One would want to look at their responses to similar stimuli and their maintenance of the balance between their capacity and their environment.

Finally, it would add value to do a study on the different departments in a market developed firm. One of the important things one would be interested in finding out is the impact market development has on the individual departments. This includes both the positive as well as the negative impact of market development. This may probably explain the performance of firms that have expanded their network. Depending on the individual impact, market development has on each unit. Since studies have been done on the impact of business units on market development, it may not be important to duplicate the same, for it is more important and necessary to understand the reverse.

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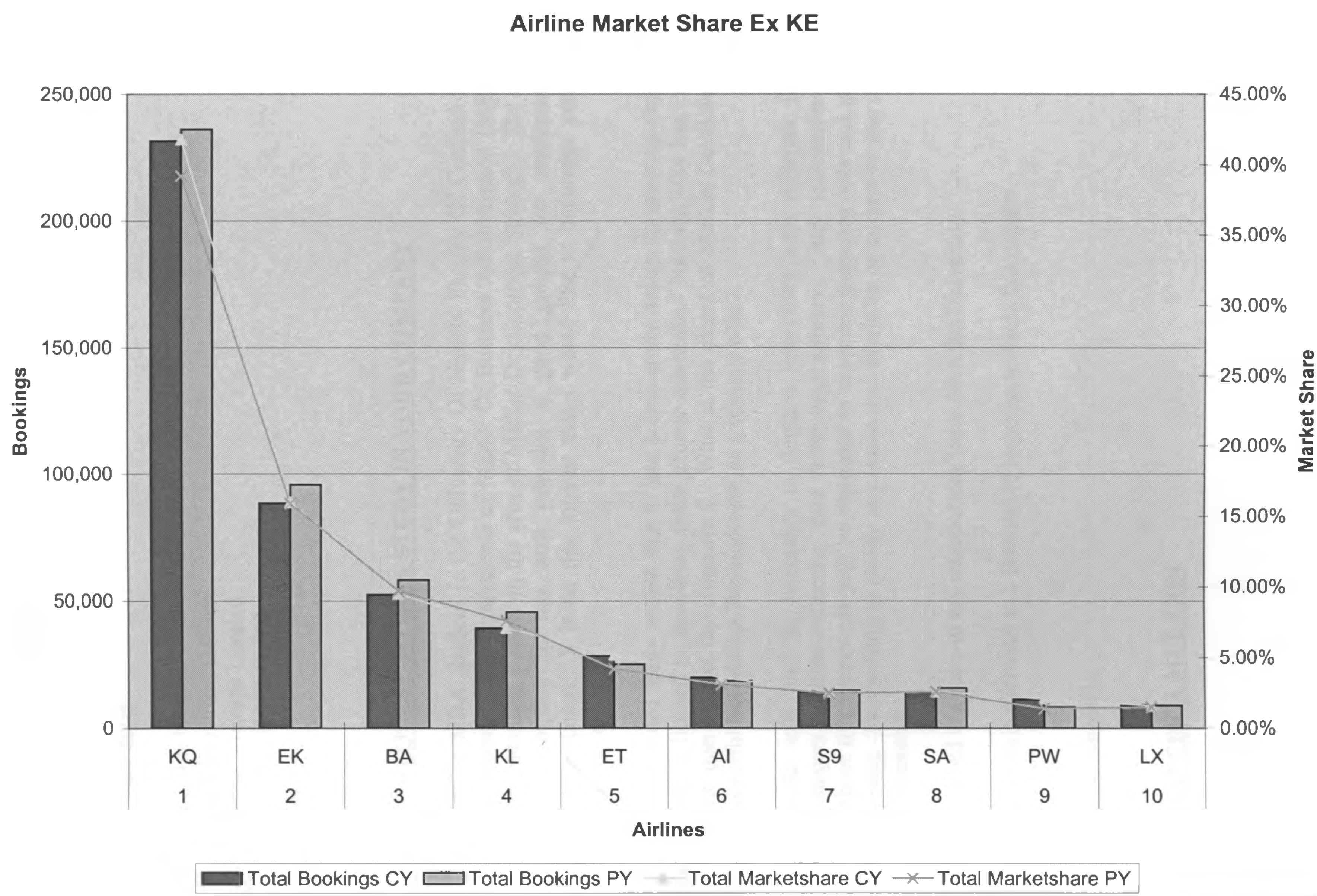
APPENDIX 1



Airline Market Share Ex KE
Bookings
250,000
200,000
150,000
100,000
50,000
0
Market Share
45.00%
40.00%
35.00%
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
KQ
1
EK
2
BA
3
KL
4
ET
5
AI
6
S9
7
SA
8
PW
9
LX
10
Airlines
Total Bookings CY
Total Bookings PY
Total Marketshare CY
Total Marketshare PY

APPENDIX 2

Francisca Mulandi
University Of Nairobi
Faculty Of Commerce
P.O Box 30197
Nairobi
07 July 2005

Mr.Titus Naikuni
Chief Executive Officer
Kenya Airways Limited
P.O Box 19002-00100
Nairobi

Dear Sir,

RE:REQUEST TO DO A STUDY IN YOUR COMPANY

I am an MBA student in the University Of Nairobi Faculty Of Commerce. In partial fulfillment of the requirements of Master Of Business Adminstration (MBA)Degree. I am conducting a study in the area of Market Development Strategy. The excellence of your company in this area provides a good ground for academic study and documentation. It is on this interest that i would like to document your company's experience.

The intended study would like to use a case study design to meet its objectives. The study is limited to answering three generic questions. Namely;Why has your company gone into Market Development ?. What is the extent of Market Development?. How successful has Market Development as a strategy been?.

To do so,it may be necessary to conduct interviews with different Directors and Managers besides collecting data from your Library. Any information within and without this framework will be restricted to academic purposes only and above all your consent. I am willing to clarify any issues that would be of interest to you prior and after you consent.

Attached is a copy of my introductory letter from the University.

I am looking forward to a favourable response towards this request.

Yours Sincerely,

FRANCISCA MULANDI

APPENDIX 3

INTERVIEW GUIDE

Name of the respondent (Optional) ………………………………………..

Designation………………………………………………………………

Name of the organization………………………………………………..

Address…………………………………………………………………..

THE ORGANIZATION'S PROFILE

1. Which year was the organization established?
2. What industry do you consider your company to be?
3. What business was the organization in when it started?
4. a) Is the Airline privately or publicly owned?

   b) What is the shareholding structure like? (Optional)
5. What is the current size of the business in terms of staff numbers and the market capitalization?
6. What is the organizational structure like?
7. To what extent is the firm centralized or decentralized?

EXTENT OF MARKET DEVELOPMENT

1. To what areas of business and markets have you grown into since the company was established?
2. If any, which of the said business areas do you regard as your core business?
3. Kindly list chronologically the order routes that have opened.

4. With most Airlines fearing to expand why has your Airline chosen to go that way ?

THE PROCESS OF NETWORK EXPANSION

1. Who is in charge of the whole process of network expansion?
2. What are the specific reasons for network expansion ?
3. What criterion or guiding principles were used in the choices of the business area?
4. Are there environmental dynamics that have enhanced, justified (e.g. government licensing) and / or inhibited (e.g. increased competition) opening of new routes?
5. Was the strategy implemented in pre-determined way or was by muddling through?
6. Was the strategy team coordinated or individually coordinated?
7. Are there changes that have occurred because of opening new routes e.g. Change of the mission statement, change of the staff levels and so forth?
8. What obstacles has the firm encountered in the implementation of his strategy?

RESULTS OF NETWORK EXPANSION

1. How successful would you consider the strategy to be?
2. Has the strategy impacted in any way on your customers?
3. Has the strategy influenced the internal organizational focus both at the management level and at the employee level?
4. Has the strategy enhanced the company's innovative capabilities?

5. Are there other reasons attributes to the success of the company other than network expansion?