COMPETITIVE STRATEGIES EMPLOYED BY SELECTED BRANDED SOFTWARE AND HARDWARE PROVIDERS IN THE INFORMATION TECHNOLOGY INDUSTRY IN NAIROBI

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DECLARATION.

This management research project is my own original work and has not been presented for a degree qualification in this or any other university or institution of learning.

Signed .... Date ..13th November 2008.

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This Management research project has been submitted for examination with my approval as the university supervisor

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DEDICATION

I dedicate this project to my Late Mum, whose encouragement in life will forever be ingrained in my heart.

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ABBREVIATIONS

IT- Information technology

ICT information communication and technology

EPZA Export Promotion Zones Authority

UON- University of Nairobi

TEAMS- East African Marine System

IRN- International Research Network

HP- Hewlett Packard

IBM- International Business Machines

ABSTRACT

Technology is changing the face of business all over the world. The IT industry has experienced phenomenal growth in the last few years. The growth especially in Kenya has brought its own set of challenges. Information Technology hardware and software firms are faced with challenges of managing a huge number of entrants in to the market and the need to remain relevant and profitable.

Various competitive strategies have been identified by scholars to address challenges in an industry. Some strategies recommend by Michael porter (1998) include Focus, Low cost and differentiation strategies. Other scholars have highlighted strategies like the hybrid strategy, emergent strategies, planned strategies; knowledge based strategies as possible strategies to explore when faced with competition.

The study sought to identify what competitive strategies Information Technology Software and hardware providers in Nairobi were utilizing. At the same the study also sought to identify the challenges faced in strategy implementation.

53 firms based in Nairobi were targeted with 32 responding representing a 62% response rate. The study was carried out using a questionnaire using the drop and pick method. The study revealed that cost of strategy implementation, high competition levels, and staff costs were major challenges. In addition, strategies like setting of warranty centers, high quality customer service, maintaining a good brand image were used heavily in the industry.

Based on the findings it was recommended that a hybrid strategy which takes into account both cost and differentiation strategies be taken into account to maintain competitiveness. This is because cost being a major challenge requires that firms find was of bringing their costs down in their value chain, at the same time there is need to offer superior service to counter threats from firms that undercut on price therefore the need for a hybrid strategy.

Further research is recommended that links existing strategy to performance. Which strategies are likely to lead to higher performance? The Study focused on firms based in Nairobi only, future research can explore other towns or regions.

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CHAPTER 1: INTRODUCTION

1.1 Background

To be able to take advantage of the opportunities that exist in this emerging IT industry firms must develop appropriate strategies. An emerging industry is described by Porter (1980) as an industry with no "rules of the game," is a factor of technology innovations and driven by emergence of customer needs. The lack of strategy creates a risk and an opportunity which must be managed by developing appropriate strategies Pearce and Robinson (2003) if companies are to properly enjoy the piece of billions the government and the private sectors plans to spend on IT (Kinyanjui 2007).

Mintzberg, et al (1999), states that the essence of strategy formulation is coping with competition. Firms must therefore develop strategies to handle the competitive situation they face in accessing contracts. Strategy development is driven by the need to remain competitive in the market of operation, According to Porter (1998), competition goes beyond the industry the organization operates in but also to other players affecting the organization directly or indirectly. To guarantee competitive edge, organizations have to continually scan the market and develop appropriate strategies. Strategies have to be developed in light of the external and internal environment in the industry in which the organization operate. Organizations have to also take advantage of new technologies and ideas to give them benefits over their competitors.

Porter's five forces model (Porter (1998) provides a framework for competitive environmental analysis. The model is based on the following considerations, bargaining power of suppliers and buyers, an organization needs to establish the extent to which suppliers or buyers can influence the business negatively or positively, barriers of entry that make it easy or difficult for new firms to enter the market and degree of rivalry between vendors in the industry. Different factors affect each industry and these factors have to be evaluated to determine those at play in the information technology industry. A strategic Manager can use the five forces model to properly analyze those factors that affect profitability in their environment, (Pearce and Robinson 2003). This will enable development of appropriate strategies to ensure continued business growth.

A winning competitive strategy is founded on consistently understanding and predicting changing market conditions and customer needs. In addition, a winning competitive strategy has to be hard to imitate therefore assisting the organization in achieving profitability in the long run (Mintzberg et al 1999). According to Porter (1998) appropriate strategies would involve a company either adopting a focus or differentiation strategy. Competitive advantage means having low costs, differentiation advantage, or a successful focus strategy. In addition, Porter (1998) argues that "competitive advantage grows fundamentally out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it. The differentiation and cost leadership strategies seek competitive advantage in a broad range of market or industry segments. By contrast, the differentiation focus and cost focus strategies are adopted in a narrow market or industry. A focus strategy would involve focus to a particular market segment and meeting only the needs of that segment. Differentiation on the other hand involves differentiation the product from competitor products through branding and offering good quality products. Stengel (2001) states that irrespective of the strategy selected proper strategic leadership needs to direct the adoption of the strategies, while customer loyalty must be maintained to keep competitors at bay.

Scholes (1997) notes that organizations in designing strategies have to be clear who their competitors are while identifying at which level they are operating in relation to their competitors. The ICT industry therefore, being vast has to be very proactive, continually analyze who competitors are and make appropriate headway in continually changing strategy to maintain competitiveness

1.1.1 The ICT Industry

The world is going digital, while the adoption of Information and Communication Technologies has been promoted as a key step in bridging the digital divide (Wim and Lawler 2007). According to Curtis, (1998) information technology plays a key role in achieving strategic objectives leading many businesses to rely on information systems in all aspects of their business functions. This trend in businesses leads to increased demand for information technology devices. Investors have identified the need and entered the market in large numbers setting up enterprises to meet the demand for computer hardware and software. The demand is evidenced by increased information technology spending not only in the private sector but also in the government sector. Industry statistics show government spending on technology solutions is set to surpass private sector spending for the first time by the end of next year offering new business opportunities for private firms (Kinyanjui 2007). In addition government projects like East African Marines System popularly known as TEAMS, will establish a national network that will facilitate access to internet services to schools, hospitals, and other public facilities thereby leading to increase in IT spending (Ratemo 2007).

The Kenyan government, in their information communication technology (ICT) policy paper for 2006, highlights the recognition of a growing digital divide between the countries that are highly endowed and developed in the field of information technology and Kenya as well as between rural and urban areas in the country. It is the objective of the Government to initiate steps to reduce this divide by using information technology to rapidly develop all sectors of the economy. Globally, IT-led growth is creating jobs, raising productivity, increasing incomes and opening many opportunities for increased trade and human development while extensive application of information technology now provides opportunities for new ways to create wealth thus contributing significantly to poverty alleviation (Maina et al 2006). There is an appreciation within the private and public sector that information technology provides a framework for growth.

1.1.2 The Information Technology Industry in Kenya

A wide variety of computer and software brands are represented in the Kenyan Market, to cater for the increased demand, many multi-national computer manufacturers are targeting Africa in a big way. Harris and Baker (2007) note that multinational technology companies cannot afford to ignore Africa because it is one of the fastest growing markets in IT. Microsoft, HP, Acer IBM, Lenovo leading international IT companies have established sales and support offices for the region in Nairobi. These Brands have their own set of challenges and ways of accessing the market that differentiate them from other players in the industry. For instance controls for branded and software companies is heavily influenced by the owners of the brand they represent.

According to the Computer Society of Kenya quarterly report (2003), corporate users prefer the branded computers because of a perception of reliability. The smaller sized users prefer so-called clones which are none branded because of their lower purchase cost. The majority of these computers run Microsoft operating system as well as Microsoft application programs. The computer brands represented widely in the Kenyan Market include International Business Machines (IBM), Dell, Acer, Hewlett Packard (HP), Meccer running Microsoft Software.

Depending on the global manufacturer requirements, different providers actively position one brand over another, for instance HP according to Harris and Baker (2006) require that companies representing the HP brand focus mainly on the HP branded products bought through the HP channel and Microsoft software which is user friendly and has a higher demand.

Information Technology Association of America (ITAA) defines Information Technology (IT) as hardware and software that is used to store, manipulate and retrieve information, including the "the study, design, development, implementation, support or management of computer-based information systems, particularly software applications and computer hardware ("www.wikipedia.com). In short, IT deals with the use of electronic computers and computer software to convert, store, protect, process, transmit and retrieve information, securely. It also refers to the amalgamation of computing and telecommunication technologies, including the internet, which are the matrix within which information and digital media are created, distributed and accessed (Muriuki 2006).

Computer Society of Kenya (2003), highlights that the IT industry in Kenya, has evolved over the years from the 1960s when the first computers were brought into the country by large organizations like University of Nairobi. In the 90s punitive measures were put in place to discourage importation of computers to support the Government policy that such equipment tended increase unemployment through giving jobs that humans could do to machines(Krist and Chemengich 2004). Intense lobbying by the industry saw the tariffs reduced to 5% in the year 2000. The sector in Kenya has been growing rapidly in recent years; in fact it has been one of the best performing sectors in an otherwise dormant economy. In 1999 the computer market - principally personal computers and medium range servers - was valued at $60 million, a 40% growth over 1998. The software market was expected to reach $80 million in 2003(Krist and Chemengich 2004).

The majority of the entrepreneurs and employees in this young industry are the youth who now fit in very well with globalization. Further, the general public, including the older generation, is increasingly surfing the Internet and using email (Krist and Chemengich 2004). The high and growing demand for IT products and services has prompted the mushrooming of assemblers in computers and telecommunications equipment. "Currently 30% of Kenya's computer requirements are locally assembled. In Nairobi alone there are some 30-50 computer assemblers, and over 75 computer consultants, 50-75 computer hardware maintenance firms, and over 200 software/services providers (Krist and Chemengich 2004). However, Kenya's current tariff structure inhibits development of assembly of computers and other ICT products. While tariffs on finished computers are zero, duties on some parts, components and peripherals can be high. This makes it difficult for a computer assembler, who has to pay duty on parts and components, to compete with an imported finished computer at zero duty" (Krist and Chemengich 2004).

According to Export Promotion Zones Authority Investor report (2005) Information technology promises a fundamental change in all aspects of our lives including knowledge dissemination, social interaction, economic practices, business practices and political engagements. The Kenyan government has made great strides in an effort to encourage growth in the industry. The Government takes cognizance of the potential of this industry and priority has been given to the development of infrastructure for instance, the government has just awarded the contract for broadband connectivity through the fibre optic infrastructure under the flagship of The East African Marine System (TEAMS) (Somen 2007). These government initiatives will not only lead to the increase of information technology usage but will also see many more entrants into the industry

Inspite of the rapid growth, Maina et al (2006) highlights that there is a lack of adequate policy, legal and regulatory framework yet there is need for sustained high level ICT leadership and championship at national level to provide oversight, inspiration and political goodwill. Online Registration portals like Computer society of Kenya, ICT village; Kenya Information and Communication Technology Federation (KIF) are the only form of framework that IT players would depend on. However, these are membership driven and firms have a choice whether to participate or not.

1.2 Statement of the problem

Mumbua (2002) stated that Strategic management is context sensitive. Every industry has unique characteristics that should influence behavior and strategies adopted. A specific study on the IT industry needs to be conducted to address specific issues within the industry.

So far various studies conducted show that the area of competitive strategy has not been given much attention to I.T. However studies on competitive strategy like Okoth (2003) researched on competitive strategies for the sugar sector, Omondi (2004) focused on the airline industry, Karanja (2002) on real estate, Njimu (2006) on educational institutions. These strategies cannot be applied to the information technology field as different factors affect different industries for instance the sugar industry has proper regulation while the IT industry has no little or no regulations.

Other studies done in the areas of IT focused on the effect of technology assisting organizations achieve strategic objectives. Kitur (2006) did a study on the strategic role of ICT in the insurance companies, Muriuki (2006) on the determinants of ICT use in Small business Enterprises, Taneja (2006) on the application of ICT in firms listed in the NSE. There is need therefore to study the area of competitive strategies in the information technology industry as this will help firms in the industry in ensuring profitability and growth.

Taneja (2006) stated that firms operate in a dynamic environment. A number of forces affect business and influence their competitiveness. Firms must therefore come up with strategies aimed at gaining competitive advantage. These strategies should be IT industry specific identifying unique environmental characteristics and challenges. Competitive strategies vary from industry to industry therefore the need to explore strategies specific to the Information technology Industry. According to Pearce and Robinson (2003) managers must recognize that industry based competition exist and therefore organizations must identify their position in relation to their industry and the entire market.

The dynamism in both global and Africa's telecommunication scene has made it difficult for service providers to operate and the need to remain competitive and profitable in the face of changing information technology sector (Ouma 2007). These erratic changes are reality to most information technology vendors and the need to develop strategies to maintain competitiveness is therefore eminent. Studies on appropriate strategies specific to this industry are necessary.

This study will seek to answer the following questions:

i. What are the competitive strategies employed in the IT industry in Nairobi by selected branded software and hardware providers

ii. What are the challenges faced in implementing this strategies.

1.3 Study Objectives

i. To determine the competitive strategies employed by selected branded hardware and software providers in the IT industry in Nairobi.

ii. To identify challenges faced in implementing these strategies.

1.4 Significance of the Study

The study will be of importance to those that will be seeking information on the IT industry. It will provide a source of information meeting different requirements for those that seek to understand the branded computer software and hardware market better.

Local entrepreneurs in the industry need information to enable them set up necessary structures in their business. This study will provide properly researched information that will form as an important resource as entrepreneurs plan their strategies.

It is the goal of the government to ensure policies are put in place that ensures increased IT use. This study will assist the government and policy makers in the development of an policies in light of the challenges established by firms that make it difficult to remain competitive as well as increase technology usage in Kenya.

The study will increase the current body of knowledge in strategic management and create further interest in the study of information technology and competitive strategies.

CHAPTER 2: LITERATURE REVIEW

2.0 Concept of strategy

Various definitions exist about strategy. According to Lynch (1997) Strategy is about winning, it is the organization's sense of purpose. Strategy is the common thread in an organization giving direction and scope of an organization in the long run (Ansoff 1967). It is a unifying theme that gives coherence and direction to the actions and decisions of individual organizations. Strategy in an organization can be used to guide the overall behavior of the firm Porter (1980), this can be done by setting up large scale future oriented plans for interacting with the competitive environment to achieve company objectives (Pearce and Robinson 2003). Corporate strategy is concerned with an organizations basic direction for the future, its purpose, its ambitions, its resources, and how it interacts with the world in which it operates (Lynch 1997).

According to Quinn (1999), a strategy is the pattern or plan that integrates organizations major goals, policies and action sequence into a cohesive role. A good strategy underlines Quinn (1999) will help marshal and allocate an organizations resources into a unique and viable posture based on its relative competencies and shortcomings, anticipated changes in the environment and the contingent moves by intelligent opponents. Strategy guides an organization to superior performance through the establishment of competitive advantages. It reflects a company's awareness of how it should compete, when it should compete against, whom it should compete against, where it should compete and for what purposes it should compete, (Pearce and Robinson 2003). Ohmae (2003) suggests that corporate strategy is only needed when an organization faces competitors. Development of competitive advantage lies at the core of strategy development therefore highlighting the need for analysis of competitive advantage (Lynch 1997). Organizations have links with customers, suppliers, and competitors, to optimize this links, the strategy that cannot be easily duplicated will contribute to superior performance.

2.1 Levels of strategy

To achieve a firm's goals different levels of decision making exist in an organization which work in sync to achieve the overall strategy. These levels are the corporate level, business level and functional level which form part and parcel of the levels of strategy (Pearce and Robinson 2003). Each level has different requirements as far as strategy and implementation are concerned. The corporate level consists of board of directors and chief executives responsible for the firm financial and non financial activities like maintaining a good company image. Corporate level strategic managers according to Pearce and Robinson (2003) attempt to exploit their firm's distinctive competencies by adopting a portfolio approach to the management of its business by developing long term plans. Corporate level managers are concerned with the overall purpose of an organization and how value will be added to the different business units (Scholes and Johnson 2002)

The business level comprises of business and corporate managers who must translate the plans developed at the corporate level into concrete objectives and strategies for their strategic business units (Pearce and Robinson 2003). According to Scholes & Johnson (2002), a strategic business unit is defined as a part of the organization for which there is a distinct external market for goods or services that is different from another strategic business unit (SBU). Business managers strive to identify and secure the most promising segment in a market. Their aim is to identify the most profitable opportunities in the market that would contribute positively to the business.

At the lower level are the functional managers consisting of managers responsible for specific products, geographical areas and functional areas. They develop short term strategies and their principal role is to implement the firm's strategic plans. Functional level managers concern themselves with how the component parts of the organization will deliver effectively the corporate and business level strategies (Scholes and Johnson 2002). The functional level managers are concerned about "doing things right" that is efficiently and effectively, while business s and corporate level managers concern themselves with "doing the right thing" effectively (Pearce and Robinson 2003).

Managers at all levels must constantly interact in decision making and development of strategy. Quinn (1999) points out that a genuine strategy is always needed when the potential actions or responses of intelligent opponents can seriously affect the firm's desired outcome regardless of the strategist level in the entire firm. Corporate strategy is in an organizations process, inseparable from the structure, behavior and culture of the company in which it takes place (Andrew 1999).

According to Mintzberg, et al (1999), the essence of strategy formulation is coping with competition. Strategy development is driven by the need to remain competitive in the market of operation. Porter (1998) indicates that competition goes beyond the industry the organization operates in but also to other players affecting the organization directly or indirectly. Suppliers, customers, Potential entrants, substitute products, are all potential competitors. To guarantee competitive edge, organizations have to continually scan the market and develop appropriate strategies. Strategies have to be developed in light of the external and internal environment in the industry in which the organization operate. Organizations have to also take advantage of new technologies and ideas to give them benefits over their competitors (Andrews 1999).

To optimize a firm's market opportunities therefore, business managers must generate strategies that relate to the external environment. The environmental influences relevant to strategic decision operate in a company's industry, the total business community, its city, country, and the world (Mintzberg et al 1999). The industry environment is full of opportunities and risks often blurred by familiarity and uncritical acceptance of the established relative position of competitors. In analysis of the industry environment, Grant (1998) highlights that the business environment of the firm consists of external influences that impacts a firms decision and performance. These features determine the intensity of competition and have an impact on profitability creating the need to analyze the industry. Pearce & Robinson (2003) underlines Michael porter's five forces of competition framework as a point of analysis of an industry competitiveness and profitability. The forces of competition include competition from substitutes, competition from new entrants, and competition from established rivals described by Grant (1998) as "Horizontal competition" and "vertical competition" encompassing bargaining power of suppliers and buyers.

The environment in which a firm operates is always changing. Changes in the business environment and moves by competitors erode the competitive position of an organization who in turn responds with countermoves Johnson and Scholes (2002), the moves are therefore temporary and organizations have to keep re-engineering themselves.

2.2 Competitive Strategy

Competition changes industry structure both consciously by a firm's strategic decisions and as an outcome of resulting competitive interaction (Grant 1998). This therefore means that in the analysis of competitive advantage the industry must be properly analyzed for changes that are as a result of competitive forces over time. Grant (1998) also highlights Joseph Schumpter as the first to recognize and analyze the dynamic interaction between competition and the industry structure. Schumpter focused on innovation as the central component of competition and the driving force behind industry revolution and developed the terms "hypercompetition" defined as "an environment characterized by intense and rapid competitive moves, in that competitors must move quickly to build advantages and erode the advantages of their rivals. This speeds up the dynamic strategic interactions among competitors (Grant 1998)." The aspect of "hypercompetition" further affirms the need to analyze an industry in a bid to establish competitive strategies currently employed and influences that might affect the same in the future.

According to Lynch (1997) sustainable competitive advantage involves every aspect of the way the organization competes in the market place, prices, product range, manufacturing quality, service levels and so on. Firms have to ensure that they have an edge apart from their competitors to avoid being imitated or replaced by other players in the market. In addition, Lynch (1997) indicates that it is important to examine the degree of concentration of companies and the range of aggressive strategies employed by competitors in the market. However, Porter (1980) highlights that competition in an industry is rooted in its underlying economic structure and goes beyond the behavior of the current competitor.

Essentially, developing a competitive strategy is developing a broad formula for how a business is going to compete, what its goals should be and what policies are needed to achieve those goals (Porter 1980). Many scholars agree that Michael Porters Five force model forms a good framework for competitive strategies in an industry. While Porters Generic competitive strategies form a good base for developing strategy in an organization.

2.2.1 Porters Generic Competitive strategies

When forces in an industry have been identified, generic competitive strategies need to be applied appropriately in relation to specific forces. Porter (1980) gives three generic competitive strategies that a firm can employ to maintain a defendable position in the industry.

a) Overall cost leadership
b) differentiation
c) Focus

Cost leadership

When a market is price sensitive, a low cost strategy would be appropriate (Thompson 2007) .A firm can choose to maintain a low cost position in relation to the competition. This position will yield the firm above average returns (Porter 1980). Cost leadership can be achieved by implementing the value chain in companies operations. The value chain can be described as a way of looking at businesses as a chain of activities that transform inputs into outputs that customer's value (Pearce and Robinson 2003). To achieve low cost position in the value chain an organization will have to find areas where cost cutting can be done in production, marketing, research. Cost cutting has to be done at every step of the production process to ensure that the final price to the consumer is attractive and not easily adapted by the competition. Success in achieving a low cost edge over rivals comes from out-managing rivals in figuring out how to perform value chain activities most cost effectively and eliminating non value chain activities (Thompson 2007). In addition states Thompson (2007) a company will achieve low cost leadership when it becomes the industry lowest cost provider rather being one of the many competitors with low costs. A low cost strategy will defend the firm against powerful buyers, powerful suppliers and will place the firm in a stable position in relation to new entrants and substitute products

Differentiation

Firms have to find ways that differentiate them from the competition. This may be in the form of branding, technology, or even product design. Differentiation will create brand loyalty, therefore deterring new entrants as well as substitute products. Differentiation yields higher margin with which to handle powerful suppliers. When buyers lack alternatives states Porter (1980), the firms gains a positive competitive position.

This strategy involves selecting one or more criteria used by buyers in a market and then positioning the business uniquely to meet those criteria. This strategy is usually associated with charging a premium price for the product often to reflect the higher production costs and extra value-added features provided for the consumer.

A differentiation strategy will eliminate the need for low cost strategy. The firm may also loose market share but may increase in profitability as some customers will prefer quality products over price.

Focus

Some firms benefit by focusing on a particular market segment and properly meeting the needs of the consumer in that segment in relation to the competition. Firms choosing the focus strategy may both incorporate the low cost strategy or the differentiation strategy and utilize that in a particular market segment. Focus areas will be well selected, for instance it could be areas less prone to substitutes or where competitors are weakest (Porter 1980).

Determining the best strategy to adopt will depend on analysis of the industry. The results of the analysis will then guide an organization to either adopt a low cost strategy, a differentiation strategy or a focus strategy.

2.2.2 Other Strategies

In addition to Porters generic strategies, other strategies exist.

Competitive strategy cannot be entirely explained by different industry conditions, the explanation for competitive advantage must rest at least in part within the firm itself. The approach according to Campbell et all (2002) is best regarded as "inside out" they further insist that The main goal of strategic management is to produce sustainable competitive advantage. Competitive advantage therefore can arise from both planned strategies and opportunistic moves by the business sometimes called "emergent strategies".

A hybrid strategy combines elements of differentiation, with price and cost competitiveness. A successful hybrid strategy will be based on the conscious decision by senior managers to combine differentiation with price and cost controls. According to Mintzberg (1991) price along with image, support, quality and design can be used as the basis of differentiation. The hybrid strategy is similar to the best cost provider strategy which aims at giving customers more value for money. The objective is deliver superior value to buyers by satisfying their expectations on quality, features, performance as well as beating their expectations in terms of price. According to Thompson (2007) best cost provider strategy appeals to the value conscious buyer who is also price sensitive.

The knowledge based school suggests that competitive advantage arises from the creation and development of new knowledge through a process of organizational learning. Organizations according to this school of thought have superior knowledge that its competitors and delivers core competencies which in turn produce competitive advantage. Knowledge and organization learning provide a unique role in building and maintaining core competencies. Core Competencies can be based upon the knowledge of customers and their needs, knowledge of technology and how to employ the knowledge in distinct ways. Organizational knowledge can be categorized into three, know how i.e.

practical knowledge, know why i.e. theoretical knowledge and know what being strategic knowledge. This knowledge when combined guides an organizational to success in beating the competition.

The resource based strategy argues that core competencies of the individual business confer competitive advantage. According to Prahalad and Hamal (1990) core competencies are the collective learning of the organization especially how to coordinate diverse production skills and integrate multiple streams of technology. Further, they add a core competence should equip a business with the ability to enter and successfully compete in several markets, add a greater perceived customer value to business products and be difficult to imitate by competitors.

Market facing generic strategy is based on the principle that organizations achieve competitive advantage by providing their customers with what they want, need better more effectively that their competitors (Johnson 2007). Assuming there are a number of providers, customers will choose an offering on their perception of value for money.

Johnson et al (2007) highlights the strategic clock represent different positions in the market where customers have different requirements in terms of achieving value for money. The strategic clock is divided into eight positions. The first position being no frills which combine a low price, low perceived product/service benefits and a focus on price sensitive market segment. The second position is a low price strategy that seeks to achieve a lower price than competitors while trying to maintain a similar perceived product benefit. The third position is differentiation where a firm provides products that are different from those of competitors and that are widely valued by buyers. The hybrid position seeks to simultaneously achieve differentiation at a price lower that the competition. Focused differentiation is the fifth position which seeks to provide high perceived product benefit at a premium price usually to a selected market segment. The sixth to eighth positions are the basis of ultimate failure in strategy.

According to Thompson et al (2007), there are countless variations in the competitive strategies that companies employ mainly because each company's strategic approach entails custom designed action to fit its own circumstances and industry environment. The different approaches according to Mintzberg (1995) are in many respects complementary rather than mutually contradictory. All strategic frameworks provide a broad source of competitive advantage to be categorized for the purpose of analysis and development of further strategy. For instance a differentiation strategy will depend on core competencies in the value chain in the area of design, marketing, service while the price based strategy will require competencies in operations and procurement.

2.2.3 Five Forces Model

The state of competition will depend on the five basic forces whose collective strength determines the profit potential of the industry (Pearce and Robinson (2003). These forces are:

a) Bargaining power of Suppliers,
b) Bargaining power of buyers,
c) Barriers to Entry,
d) Degree of rivalry in the industry,
e) The threat of substitute products

Porter (1980) defines an industry as a group of firms producing products that are close substitutes of each other. The five forces take prominence in shaping competition in each industry and the strength of each force is different in each industry. Players must therefore establish which force is most relevant in their industry and develop measures to handle the stronger force while at the same not ignoring the influence of other forces. The real value of doing a driving forces analysis states Thompson et al(2007), is to gain a better understanding of what strategy adjustments needs to be made to cope with industry drivers.

Bargaining power of suppliers

Suppliers of a product or service have a level of authority in an industry. Porter argued that suppliers are powerful under the following conditions, few suppliers in the market, no substitutes for what suppliers offer, the supplier's prices are a large part of the total cost of the organization and if a supplier can potentially undertake the value added process of the organization (Lynch 1997). Suppliers can exert bargaining power over other participants in an industry by threatening to raise prices or reduce quality of the product (Porter 1980). Powerful suppliers can squeeze profitability out of an industry, by constantly negotiating or locking the firm to their terms especially when the firm has no alternative sources. Organizations therefore must find ways to manage suppliers appropriately.

Bargaining power of buyers

Buyers or customers as described by Porter will have powerful influence in an organization if there are a few buyers, the product is undifferentiated, backward integration is possible, the selling price is unimportant in relation to the total cost to the buyer (Lynch 1997). According to Johnson and Scholes (2002) buyer power is also likely to be high when the supplying industry comprises of a large number of small operators, there are alternative sources of supply, and the costs of switching are low. Buyers bargain for better prices, high quality services and in the process drive down profitability. In situations where the numbers of firms are more than the number of buyers, the firm is forced to reduce prices to get the deal or contract.

The threat of potential entrants

New entrants into a market that see potential to be utilized and have a desire to gain market share will usually have substantial resources (Porter 1980). The threat of entry into an industry will depend on the barriers of entry present coupled with reaction from existing competitors. Barriers to entry states Scholes and Johnson (2002) are factors that need to be overcome by new entrants if they are to compete successfully. Where barriers are high, it becomes harder to enter and entrants will find it difficult to gain market share. New entrants will come into the market when profit margins are attractive and the barriers of entry are low, According to Porter (1998) there are seven major sources of barriers to entry, this being: economies of scale, product branding and differentiation, capital requirement for new ventures, switching costs, access to distribution channels, and government policy.

The threat of substitutes

Identifying substitute products is a matter of searching for other products that can perform the same function as the product of the industry (Porter 1980). Products deserving attention are those that are subject to changing trends while improving price performance and are produced by firms enjoying high profitability states (Porter 1980) Substitutes reduce demand for a particular class of products as customers switch to other alternatives (Scholes and Johnson 2002).

Lynch (1997) notes that substitutes may render a product in an industry redundant. Substitutes do not entirely replace existing products but introduce new technology or reduce the costs of producing the same product. In analysis of the threat that substitutes present, the issues to be analyzed would be the possible threat of obsolesce, the ability of customers to switch to substitutes, the cost of providing extra services and the likely effect of profit reduction in the face of declining prices (Lynch 1997).

The extent of competitive rivalry

Competitive rivals according to Johnson and Scholes (2002) are organizations with similar products and services aimed at the same customer group. Rivalry in an industry occurs when one or more competitors experience the pressure or sees the opportunity to improve their position (Porter 1980). Some conditions in an industry may lead to a highly competitive environment which according to Lynch (1997), is when competitors are equal in size, when the market is growing slowly and one firm wishes to gain dominance, where cost of production is high, where its difficult to differentiate products or services, where it is expensive to enter or exit, and if the entrants have expressed a determination to achieve a strategic stake in that market, there is bound to be rivalry among competitors.

Rivalry may take the form of price reduction, advertising, new product launch, warranties and improved customer service (Porter 1980). In markets where the competition is stiff firms may focus on survival rather than profitability as Chepkwony (2001) established that competition in the petroleum industry had companies focusing on survival rather than profitability.

When forces in an industry have been identified then the next step is to evaluate the firms position in relation to the forces. An internal and external analysis has to be conducted to identify strengths and weaknesses relative to the industry. Porter (1980) states an effective competitive strategy takes an offensive and defendable position against the five competitive forces. This involves positioning the firm's capabilities to act as a defense to competitive forces, strategic moves that balance that firm's position relative to other players, and countering changes in the forces by continually developing strategies.

CHAPTER 3: REASERCH METHODOLOGY

3.1 Research design and Setting

This study will use a cross sectional survey design. This design is focused at a subset of the population at a particular point in time. Cross-sectional research takes a representative sample of its target group and bases its overall finding on the views of those targeted, assuming them to be typical of the whole group therefore allowing for generalizations. The method is useful in identifying practices in an organization. Omondi (2006) in a similar study of competitive strategies for the airline industry successfully used this design.

3.2 Population

The population of study will be branded software and hardware providers represented in Nairobi. The companies as listed in Annex 1 will be those that represent global IT brands in Nairobi.

A census will be conducted, where all the firms listed in Annex I will be provided with a questionnaire.

3.3 Data Collection

The questionnaire method will be used for data collection. Respondents will be top level management and sales managers in respective organizations. The questionnaire will be designed to receive responses for the key study objectives and will cover the following sections;

i) demographics e.g. title of respondent, company location, number of years in operation

ii) strategies employed to gain competitive advantage

iii) challenges encountered in applying competitive strategies

The drop and pick method and online questionnaire method will be used and where necessary a structured face to face interview will be used. .

In the Demographic section, individuals will establish their role in the company which is optional; in addition information about brand representation and ownership is required. In the second and third sections, for each competitive strategy or challenge respectively, respondents are required to indicate what they practice or face in the organisation using the five point Likert scale ranging from very "highly" "5", highly "4", moderately, "3", little extent "2", not at all "1". Measurement will be on the higher score of 5, which implicates use of strategy or effect of the challenge

3.4 Data analysis

Data collected will be edited for completeness and consistency then processed. Data collected will then by analyzed and interpreted to provide answers to the research questions. Descriptive statistics will be used to analyze and summarize data. Descriptive Statistics, mean, mode and median will be used because they assist in describing and summarizing the basic features of the data in a study. These will provide simple summaries about the specific sample and the measures. In addition, Descriptive statistics allows for tabular description that allows the use of tables to summarize data.

CHAPTER 4: DATA ANALYSIS AND FINDINGS.

4.1 Introduction

This chapter presents summaries of data findings and a comprehensive analysis of the interpretation of the research conducted. The aim of the study was to establish competitive strategies employed by Branded Hardware and Software firms in the Information Technology industry.

The study achieved a 61% response rate with 32 companies out of the 53 companies responding. The response rate was considered suitable for analysis.

4.2 Demographic profile

The study targeted firms based in Nairobi only. The questionnaire sought to establish if the firms were locally or foreign owned. The results are as summarised below:

Figure 4.2.1

Ownership	Frequency	Percentage
Locally Owned	26	81.25
Local and foreign ownership	6	18.75
Foreign ownership	0	0
Total	**32**	**100%**

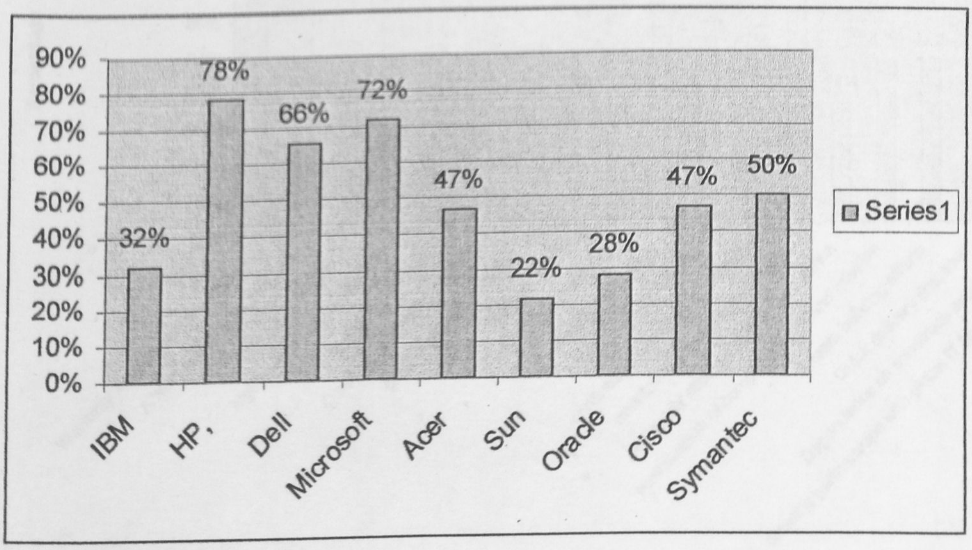
Source: research data.

81% of the targeted companies are locally owned while a mere 18% have both local and foreign ownership. No IT firm had foreign ownership only.

4.3 Brand Representation

Various brands were represented by the IT firms. The respondents were requested to indicate which brand their company represented. Most of the companies had HP as a premier brand with 78% of the respondents. It was noted that most IT firms represented more than one brand to match their customer needs. Most firms in addition to a hardware brand like HP or Dell also represented Microsoft. The analysis of brand representation of the firms is as below:-

Figure 4.3.1



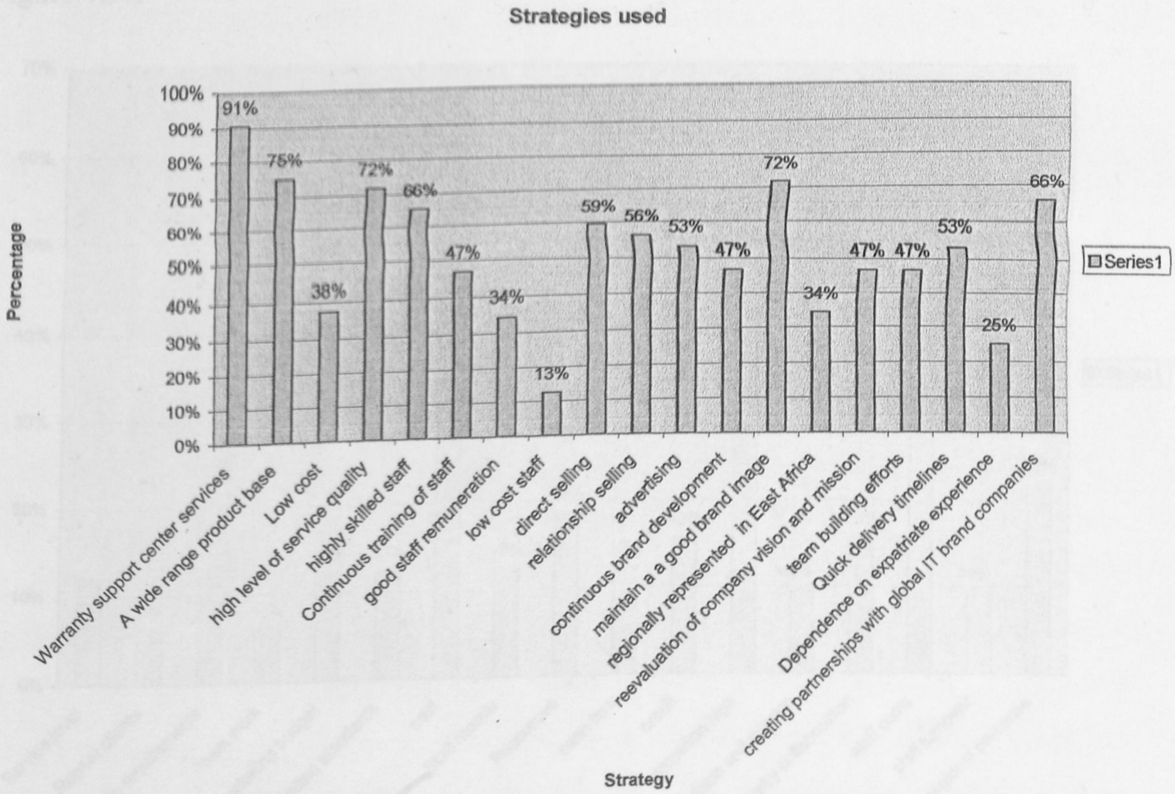
Source: research data.

HP as earlier mentioned was represented by most firms while a partly 22% of the firms interviewed represented the Sun Microsystems brand.

4.4: Competitive Strategies adopted

The competitive strategies currently adopted by IT firms were the first objective of the study. This section gives a summary of the respondents rating of the extent to which they use a given competitive strategy. The results are presented as a percentage of the respondents that indicated that they used the strategy "highly" in their organisation.

Figure 4.4.1 below gives a summary of the strategies used rated highly in order to sustain competitiveness in the market.



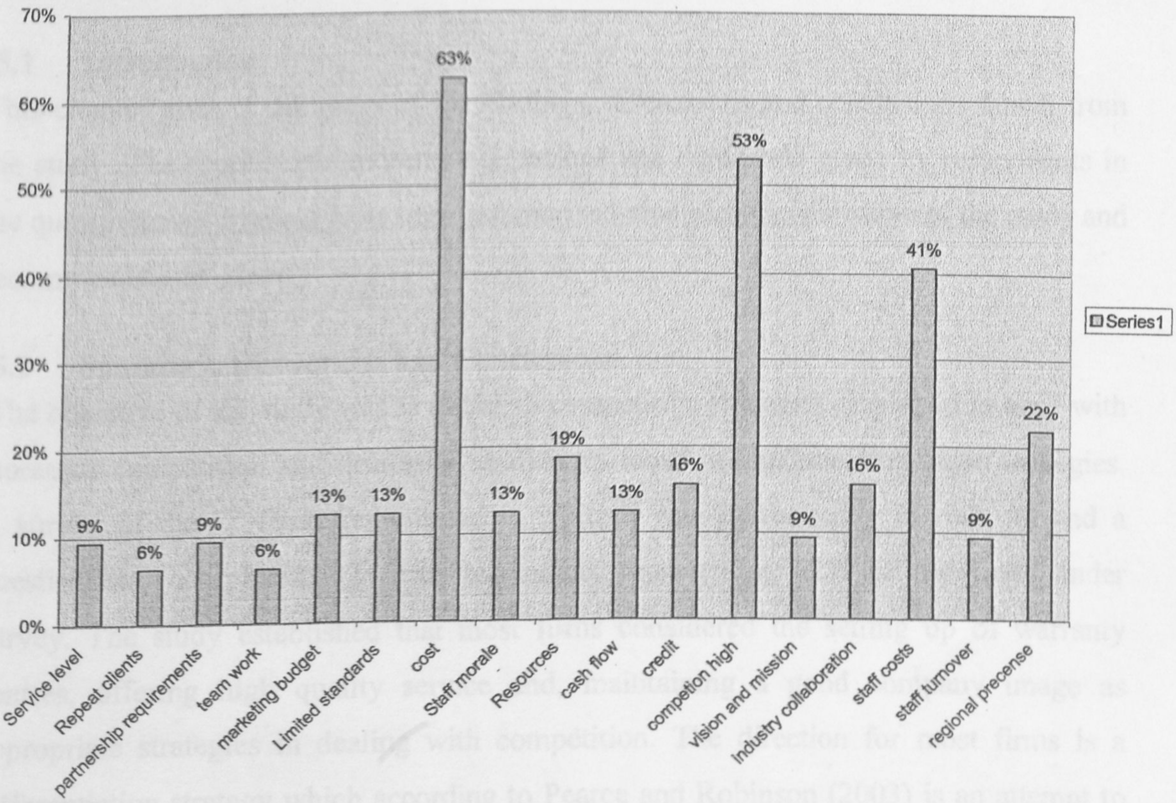
Strategies that are most utilised by Branded software and hardware providers in Nairobi are offering warranty support services at 91%, offering a wide product base at 75%, maintaining a good brand image at 72%, and creating Partnerships with global brands at 66% . The least utilised by most IT firms being use of Low cost staff.

The results in figure 4.4.2 show use of differentiation strategies. Differentiation according to Porter (1980) creates brand loyalty therefore deterring new entrants and yields higher margins. The strategies rated highly point towards strategies aimed at offering clients high value at a premium cost.

4.5 Challenges faced in strategy implementation

The second objective of the study was to identify challenges faced by IT firms in implementing the strategies in place.

Figure 4.5.1



The results show that the most highly rated challenge of strategy implementation being cost at 63%. Cost of maintaining differentiation strategies like staff costs. In addition high competition as rated highly at 53%. Lack of regional presence at 22% and adequate resources at 19% were seen as other challenges to implementing strategy. The challenges rated highly can be addressed at the corporate level of firms, in ensuring that top level managers avail more resources toward retaining staff and expansion to other regions.

An organisation's business strategy is the pathway through which its Vision and Mission are achieved (Kitur 2006). However, only 9% of the firms that responded indicated that they often re-evaluated their vision and mission to drive the company forward.

CHAPTER 5: SUMMARY, DISCUSSIONS AND CONCLUSIONS

5.1 Introduction

This chapter gives a summary of the findings, discussions and conclusions drawn from the study. The chapter incorporates suggestions and comments given by respondents in the questionnaire. Finding have been summarised alongside the objective of the study and recommendations given.

5.2 Summary, Discussions and Conclusions.

The objective of the study was to establish competitive strategies employed to cope with increased competition and determine challenges faced in implementing those strategies. A survey of the IT firms represented in Nairobi was subsequently carried out and a questionnaire completed, 32 firms responded, representing 62% of the firms under survey. The study established that most firms considered the setting up of warranty centres, offering high quality service and, maintaining a good company image as appropriate strategies in dealing with competition. The direction for most firms is a differentiation strategy which according to Pearce and Robinson (2003) is an attempt to maintain customer loyalty by exploiting the firm's distinctive competencies. Most firms therefore have invested heavily in infrastructure in a bid to attract loyal and a large customer base. Advertising was also considered an avenue for maintaining a good company image.

63% indicated that cost was the biggest challenge, while 41% rated staff costs as a major challenge, while 53% rated high competition as the biggest challenge. The increasing number of IT firms as stated by some respondents therefore further forcing IT firms to reduce their prices to match competitor prices. According to Johnson and Scholes (2002) where there are too many suppliers, buyer power tends to increase since the customer has options. Buyers will bargain for better prices, higher quality and in the process drive down profitability. According to Porter (1998) if products are standard and undifferentiated then buyer power will tend to increase as well. In this case a customer looking for a HP laptop in Nairobi has 25 firms of those interviewed to choose from therefore further shrinking industry profits.

The challenge of cost and high competition therefore implies that IT firms need to craft strategy that allows their company to hold against rivals. High competition according to Thompson (2007), puts pressure on firms therefore driving costs and threatening the existence of high cost companies. It is therefore imperative that IT firms develop strategies that forge a solution to high costs and high competition. According to Grant (1998), firms must move quickly and erode advantages of their rivals in order to remain relevant. Lynch (1997) states that firms have to develop an edge to avoid being imitated or replaced by other players in the market.

Intense rivalry exists between IT firms in Nairobi. For instance of the 78% of those interviewed were all HP partners based in Nairobi. The market size is limited to Nairobi therefore companies have to apply aggressive strategies to capture customer attention. According to Thompson et al (2007), intense rivalry forces firms towards price cuts and other competitive weapons to boost sales.

The industry represents many brands, therefore relatively low switching costs especially because products are generally identical in specifications but for the brand name. It makes it very easy for firms to switch from one supplier to the next. Consumers tend to be more prices sensitive if the product is undifferentiated (Pearce and Robinson, 2003). In addition, the customer has become more and more informed about technology therefore a better bargaining position with the internet providing another tool to compare prices.

The debate rages between a low cost strategy and a differentiation strategy for IT firms in Nairobi. A company, according to Porter (2008) will achieve a low cost strategy when it becomes the countries lowest cost provider, however in the Branded market, cost of production are totally out of control of the IT firms. Products are ready for use when they arrive in the country; in addition different brands overseas are also having price wars whose successes may not filter back to us. It is therefore imperative that a differentiation strategy be used in order to remain relevant in the market. Strategies according to

Thompson (2007) that will boost sales would be lower prices, higher quality strong brand image, wide selection of products, low interest financing, or higher levels of advertising all geared towards a differentiation strategy. A differentiation strategy becomes a basis of competitive advantage if either the product or services offering attributes differ significantly from that of the competition (Thompson 2007). In this case since products are similar in function and specification, differentiation can be achieved on the basis on competencies that rivals do not have for instance, faster product delivery, brand image, high level customer service, low cost financing. However, a differentiation strategy, also attracts high costs which 63% of the IT firms indicated was a major challenge. A hybrid strategy which combines elements of differentiation, with price and cost competitiveness would therefore be most effective. A successful hybrid strategy according to Mintzberg (1991) will be based on the conscious decision by senior managers to combine differentiation with price and cost controls.

5.3 Limitations of the study.

The study size was only limited to firms in Nairobi. Although 53 firms were targeted only 63% responded to the questionnaire. In addition, the questionnaire structure failed to motivate most respondents in giving specific examples and scenarios that would have been further analysed which may have been different if a face interview had been used as a method of data collection.

Time was also of constrain in the process of study, the respondents wanted a longer time frame. In addition some respondents were reluctant to participate in the questionnaire.

5.4 Recommendations for Further research

The study mainly focussed on firms in Nairobi only, further research would be necessary to identify strategies and challenges faced by IT firms in major towns in Kenya like Mombasa and Kisumu.

A study that links performance to strategy would also be necessary to establish which strategies are likely to lead to higher performance. Further research should also be done on the IT firms that only concentrate one brand and differentiate themselves in a particular market. For instance Sun Microsystems partners, focus on one brand only, it would be excellent to identify what strategies they focus on and what challenges they face in the same market segment.

5.5 Implication of policy and practice

Of the surveyed participants 31% indicated the need for a regulatory framework in the IT industry. This would have an effect on profitability and quality of service of the firms. Proper policy in the industry would create barriers to entry Porter (1998) therefore making it a difficult for briefcase companies to operate. According to Pearce and Robinson (2003), industry regulations are a key element of the industry structure and constitute a significant barrier to entry.

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Appendix 1: Branded Computer and Software Providers in Nairobi Kenya.

1 Airtel Limited
2 Asp Africa Ltd
3 Astral Concepts
4 Attain Enterprise Solutions
5 Bell Atlantic Communications
6 Big Sky Computers
7 Blommerang Computers
8 Blue Chip Technologies Ltd
9 Bytech Engineering Ltd
10 Circuit Business Systems
11 Computech Limited
12 Computer Pride Ltd
13 Computer Revolution
14 Comztek East Africa
15 Copy Cat
16 Crescent Technologies
17 Data Solutions
18 Diamond Systems
19 Dimension Data
20 Edgenet Solutions Limited
21 Elite Computers
22 Empire Microsystems
23 Escom Computers
24 Fincom Technologies
25 Fintech Kenya
26 First Computers
27 Gestalt Gild

28	Jo World Agencies
29	Legend Technologies
30	Mackphilisia Computer Systems
31	Mfi Office Solutions
32	Microlan Limited
33	Mitsumi Computers
34	Modern Business Communications
35	Network Source
36	Newtech Solutions
37	Next Technologies
38	Openview Business Systesms
39	Pc World
40	Pc-Comm Africa Ltd
41	Sai Computers
42	Sahara Computers
43	Securenet Technologies
44	Seven Seas Technologies
45	Sight & Sound Computers
46	Sky Tech Technologies
47	Sky Technologies
48	Silveredge Solutions
49	Smart Enterprise Solutions.
50	Symphony
51	Technology Today
52	Trans Business Machines
53	Technology Associates

Source: www.microsoft.com/emea, www.hp.com/africaenglish/partners, www.lenovo.com/africa/partners, www.toshiba.com/emea/partners,

Appendix 2: Letter of Introduction

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAM – LOWER KABETE CAMPUS

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE......24th July 2008........

TO WHOM IT MAY CONCERN

The bearer of this letter ....IRENE NJERI NGURE..........

Registration No: ....D61/P/8243/03..........

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

DR. W.N. IRAKI
CO-ORDINATOR, MBA PROGRAM

Appendix 3: Questionnaire

Thank you for participating in this research. Your comments are highly appreciated

Name (optional)

Title

Company

Address

Regional Spread

Local (State location)

International (state location)

Ownership structure (tick appropriately)

Local ( ) Foreign ( ) Foreign and Local ( )

Which brand does your company represent (tick all that apply)

IBM ( )
HP, ( )
Dell ( )
Microsoft ( )
Acer ( )
Sun ( )
Oracle ( )
Cisco ( )
Symantec ( )

Has your company always partnered with the brand stated above Yes ☐ No ☐

If No please state reason for the change of brand representation

To what extent are the strategies below used in your organization? (tick the most appropriate)
1.- not at all, 2- Little extent, 3- moderately, 4- highly, 5- Very high use

	5	4	3	2	1
Warranty support center services					
A wide range product base					
High level of service quality					
Low cost products					
Highly skilled staff					
Continuous training of staff					
Staff remuneration in tune with market trends					
Low cost products					
Low cost staff					
Technical Staff hired on a need by basis					
Direct selling e.g. cold calling					
Relationship selling					
Advertising					
Continuous brand development					
Maintain a good brand image					
Regionally represented in East Africa					
Continuous reevaluation of company vision and mission					
Team building efforts					
Quick delivery timelines					
Dependence on expatriate experience					
Creating partnerships with global IT brand companies					
Partnership with societies e.g. Computer Society of Kenya					
Shareholding in distribution companies to control the value chain					
Focus on selling one product/Service only					
Take advantage of any attractive IT opportunity					

Organize loyal Customer events e.g. Golf events

Others please state

____

____

What challenges do you face in employing strategies
1.- not at all, 2- Little extent, 3- moderately, 4- highly, 5- Very high use

	5	4	3	2	1
Cost					
Low staff morale					
High cost of skilled staff					
Lack of resources					
Inability to meet service levels					
Inability to attract repeat customers					
Lack of collaboration with the industry					
Cash flow challenges					
Credit management					
Highly competitive environment					
Lack of overall company direction					

Limited number of staff	5	4	3	2	1
Stringent partnership requirements	5	4	3	2	1
Lack of team work	5	4	3	2	1
Low representation in the region	5	4	3	2	1
No marketing budget	5	4	3	2	1
A well informed customer	5	4	3	2	1
Lack of Controls e.g.: penalty on grey market products	5	4	3	2	1
Software Piracy	5	4	3	2	1
Government policy e.g. taxes on software	5	4	3	2	1

Others please state

In General what would you say is the strategy you implement
Tick Appropriately.

Focus Strategy (Focus on a narrow defined market segment only)

Differentiation Strategy (Focus on Value offerings in a particular segment)

Low Cost strategy (being able to produce at the lowest cost therefore offering the low cost products)

Please Explain (Optional)

Thank you for taking the time to participate!