MARKETING IN A LIBERALIZED PETROLEUM INDUSTRY: - A STUDY ON CHANGES IN MARKETING MIX OF OIL COMPANIES IN KENYA.

BY

Samuel Kiarie Wairachu

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DECLARATION

This project is my original work and has never been submitted for a degree in any other University.

Signed: 
SAMUEL KIARIE WAIRACHU

Date: 05/10/01

This project has been submitted for examination with my approval as the University supervisor.

Signed:  
MRS. MARGARET A. OMBOK

Lecturer, Department of Business Administration, Faculty of Commerce, University of Nairobi.

Date: 05/10/01
DEDICATION

In the memory of
My late grandfather Mzee Joshua Gakuru.

*He foresaw the future and prepared well for it but never lived to harvest the fruits of his hard work.*
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The study sought to investigate and document changes made in the marketing mix by Petroleum (oil) firms as they operate in a liberalized environment. It was based on six oil companies, which have operated in both pre-liberalized and liberalized periods.

The specific objectives of the study were: to determine whether oil firms have adjusted their marketing mix to cope with the new environmental changes, to determine the nature of these adjustments and to establish whether these firms are facing any new changes/problems in their marketing activities as they operate in a liberalized market.

The study used primary data, which was collected by use of a questionnaire and the mode of collection was by personal interviews. The data was obtained from all the six firms forming the population of interest. It was then analyzed using descriptive statistics.

Findings of this study reveal that liberalization has led to a revolutionary change in the way things used to be done in marketing petroleum products. All the petroleum firms studied had to make changes in nearly all the elements of marketing mix in order to remain competitive. They have become more market oriented and have come out of the narrow sales or production focus. Consequently they became innovative and sought new ways of approaching the changed environment, as the market is no longer the predictable one they were used to before liberalization.

In view of the study's findings, a few recommendations have been made. Firstly, companies should be more agile and continue adjusting their marketing mix to fully exploit any existing opportunities - which may add more value to their operations and at the same time be of benefit to the consumer/customer. Secondly, due to the existing stiff competition in the industry, and the fact that petrol is a commodity which is not easy to differentiate, companies should use quality of service to establish a competitive edge in the market. Thirdly, since all the firms in the study are members of the newly formed Petroleum Institute of East Africa, they should actively use this body to lobby to the government to ensure there exists an even playing field. Specifically, the government should create a safe, healthy and environmentally acceptable petroleum industry, that is based on professional standards, and the principles of a fair, level playing ground. It is only when the market is like this that oil firms can derive maximum benefits from the changes they make in the marketing mix.
1.0 CHAPTER ONE
INTRODUCTION

1.1 BACKGROUND
Due to the recent developments in the Kenyan economy, most business organisations are operating under an increasingly turbulent environment. One such development is the liberalisation of the economy, which has had a significant impact in the market place. Liberalisation can be traced back to the reforms advocated to the Third World Countries by the World Bank (WB) and the International Monetary Fund (IMF).

1.1.1 Economic Reforms Leading to Liberalisation
Several Third World Countries went into economic crisis in the late 1970s. This made them resort to borrowing abroad to pay for their imports (Messkoub, 1992). However, a crunch came in the early 1980s, when the United States, faced with problems at home pushed up interest rates. Messkoub (1992), reports that by 1982, many Third World governments were already unable to repay or to pay the interest rates on their debts. Consequently, most of these countries faced great difficulties in borrowing abroad, whether for investments, trade credit or imports of food or oil. (Korner, et al., 1986)

This, according to Messkoub (1992), is what brought many Third World governments to the doors of the International Momentary Fund (IMF) and the World Bank. They were seeking finance to continue to trade, and hence keep their economies functioning. The IMF and the World Bank have worked together and have provided finance to Third World economies during crisis. They have even played the role of intermediaries in renegotiating debt obligations with Western banks. As a result these institutions have exacted a price. The price has been acceptance by the Third World governments of economic reform programmes, aimed to ‘readjust’ these economies to the lower intermediate standards of living enforced by multiple economic crisis. The stated longer-term aim is to reorganise these economies so that they develop more effectively, that is less vulnerably, in the future. These economic reform programmes have come to be known as “Structural Adjustment".
Structural Adjustment Programmes refers to a series of policies propelled by the IMF and the World Bank, with the explicit aim of opening up Third World countries to World Market competition, to promote their exports, and to restrain domestic expenditure [Messkoub (1992); Gibbon & Olukoshi (1996)].

In the view of World Bank and the IMF, the state is often the culprit in matters of economic crisis. The cure is to redress state action in the economy through comprehensive economic reform policies. Messkoub (1992), classified them into two:

1. The state should act directly to restructure its own taxation and social provision.
2. The state should alter the way it intervenes in markets to change their organization or their pricing behaviour, in order to create a favourable climate for investment and growth.

On economic reforms to change the general climate for investment and growth, Messkoub (1992), argues that, here the key words are ‘getting prices right’ and ‘deregulation’. “Getting prices right” means that the economy should be guided by the world market, which is seen as reflecting the real cost of goods and services.

‘Deregulation’ – means that the state should dismantle the artificial barriers, which prevent the economy from responding to market pressures in general, and to World market signals in particular. In short, the market forces should reign supreme.

Kenya is one of the third world countries, which adopted Structural Adjustment Programmes (SAPS).

1.1.2 Structural Adjustment Programmes in Kenya

According to the Government of Kenya’s Eighth National Development Plan (1997-2001), Structural Adjustment Programmes were first introduced in the management of the Kenyan economy during the 1980/81 fiscal year. They did not, however, become an important part of economic management until after publication of the sessional paper NO. 1 of 1986. They have since been integrated as policy tools for economic management.

The adoption of SAPs was aimed at restoring efficiency in all sectors of the economy and consequently raising the rate of economic growth.
The implementation of SAPS has involved the following subject areas:

- Liberalization of prices and marketing systems;
- Financial sector policy reforms;
- International trade regulations reforms;
- Government budget rationalization;
- Divestiture and privatization;
- Parastatal reform;
- Civil service reform.


1.1.3 Liberalisation of Petroleum Industry in Kenya

Effects of SAPs have been felt in various sectors of the economy. As part of the market reform process, liberalisation of petroleum products in Kenya was announced in October 1994. The objective of liberalisation was to create a more competitive environment, which would improve the availability of petroleum products and lower prices in the long-term. (GOK: Economic Reforms for 1996-1998). The liberalisation process was meant to dismantle all government controls that hindered the operation of a free market system.

Before liberalisation, the marketing of petroleum products was done by the following companies; Agip (K) Ltd., Kenya Shell/BP Kenya Ltd., Caltex Oil (K) Ltd., Total (K) Ltd., Esso (K) Ltd., Kenol Ltd and Kobil Ltd. [Ministry of Energy, Agenda ‘94] These companies are commonly referred to as the “majors” in the petroleum industry. Kenya Shell and BP Kenya Ltd are jointly managed. Likewise Kenol and Kobil are run and managed jointly. Apart from Kenol and Kobil, all the rest are multinationals.

After liberalisation the Kenyan Government licensed independent filling stations to operate in various parts of the country with the aim of stabilising and lowering the retail prices of petroleum products (GOK: Economic Survey, 1999). These players are commonly referred to as “The Independents”. Several other new entrants (from outside the country) also entered the market. The end result is a dynamic and a very competitive
oil industry. The few old players, which used to operate in a regulated market, must have made several adjustments in their operations to fit in the new environment.

1.2 Statement of the Problem

The Petroleum sector plays a very crucial role in the Kenyan economy. According to the government of Kenya’s economic survey report of 1993, 80% of commercial energy consumed is derived from oil. Changes in this sector are therefore bound to be closely monitored by all interested parties and especially the government, oil firms and the consumers. The liberalisation of this industry has led to several new players being licensed to market petroleum products locally (GOK -Economic-survey 1999). The entry of these new players in the market has made the petroleum industry to be very turbulent. This is evident from the many reported cases of illegal activities within the industry [Muchai, 1999; Oyuke 1999]. The government has also repeatedly accused the major petroleum companies of operating like a cartel in their operations (Akumu, 1999).

These developments have posed serious challenges to firms marketing petroleum products in Kenya and especially those which operated before liberalisation and are still in operation (the majors). They must have found the two periods quite different in terms of challenges. In this light, Wilson and Gilligan (1992) argues that one of the major problems faced by managers comes when the organisation, having operated for some time in a largely predictable environment, is faced with having to come to terms with a far more complex, uncertain and possibly malevolent environment.

In marketing, managers normally manipulate marketing mix elements to achieve their objectives in a set target market. If the situation in the market changes, then marketing mix elements must be adjusted in order for the set objectives to be realised. Studies in some other liberalised sectors of the Kenyan economy have shown that firms in such sectors have adjusted their marketing mix elements in response to the changes in the environment [Mohammed(1995); Kombo(1997); Chunc(1998); Bett(1995)].
A few studies have been conducted in the Kenyan Petroleum industry. These are; Abeka (1996), Njuguna (1996), Wamathu (1999). All these studies have been conducted in the general area of strategic management. Though they provide valuable insights into the area of strategic management, none has investigated the state of marketing mix in relation to the changed business environment. Marketing, as Bruning and Lockshin (1994) observes, has a critical role to play in helping generate organisational competitiveness.

This study therefore seeks to fill the above gap by investigating how petroleum firms in Kenya have changed or modified their marketing activities in response to the new environment after the petroleum sector was liberalised. In particular the study will answer the following question:

"How have the petroleum companies adjusted their marketing mix to cope with the new environment after liberalisation?"

1.2.1 Objectives of the Study

The objectives of this study are:

1. To determine whether petroleum firms have adjusted their marketing mix to cope with the changes in the environment after liberalisation.
2. To determine the nature of these adjustments.
3. To establish whether these firms are facing any new challenges / problem(s) in their marketing mix elements as they operate in the liberalised environment and the nature of these challenges / problems.

1.2.2 Importance of the study

The study will be of benefit to the following groups of people:

1. Practitioners of marketing in understanding how the marketing mix concept is used and modified in response to changes in the business environment. In particular managers in the petroleum industry will find it useful in understanding how liberalisation has affected marketing activities in this sector of the economy

2. Scholars of marketing- by keeping them in touch with the marketing practices currently used in the petroleum industry.
1.2.3 Structure of the Research paper

This study has five chapters as outlined below:

Chapter one: Introduction
This introductory chapter provides an overview of the study. It provides the background information, statement of the problem, objectives of the study, and importance of the study.

Chapter two: Literature Review
This chapter reviews literature on effects of liberalization/deregulation on marketing in various sectors of an economy. It also contains literature on the concept of marketing mix elements. A brief insight on petroleum industry in Kenya (before and after liberalization) is also presented in this section.

Chapter three: Research Methodology
This chapter contains details about the population of interest, data collection and analysis methods.

Chapter four: Data Analysis and Research Findings
This chapter covers data analysis techniques and its interpretation.

Chapter five: Discussions, Conclusions and Recommendations.
In this chapter, discussions, summary, conclusions and recommendations of the research findings are presented. It also outlines limitations of the study and suggestions for further research.
2.0 CHAPTER TWO
LITERATURE REVIEW

2.1 Changes in marketing variables due to Liberalisation/Deregulation.

One of the uncontrollable factors, which influence the operations of an organization, emanates from the government as it sets the rules in the political-legal environment. It is in this context that we find laws and regulations, which affect marketing activities in any country.

Churchill and Paul (1995) observes that, the extensiveness of these laws and regulations can complicate marketing activities. On the other hand relaxation of the same can change the business environment leading to increased competition. Porter(1990) argues that regulation of competition by the government through such policies as maintaining a state monopoly, controlling entry, or fixing prices, usually works against the upgrading of competitive advantage in an economy. The consequence according to Porter is stifling of rivalry and innovation, since without open competition firms lose dynamism and become preoccupied with dealing with regulators and protecting what they have.

Deregulation, which include among other things, removal of restrictions on markets can therefore alter the level of competition in an industry. Porter(1990) adds that deregulation of competition and privatization of state monopolies are usually spurs of national advantage since they will stimulate rivalry and have ripple effects on linked industries.

In the last two decades many of the world’s businesses have been deregulated, Coyne and Dye (1998). The resulting changes in the market have prompted the affected firms to respond by altering their market mix elements in various ways. According to Harris et al (1994), studies done in Indonesia revealed that, following the 1983 banking deregulation, interest rates on deposits at state banks almost doubled. At the same time, private banks increased their deposit rates. This forced the banking industry to adjust its lending rate to remain profitable in a competitive market.
Steel and Webster (1992) found that small-scale enterprises in Ghana adapted to competitive environment as a result of SAPs by altering their product mixes. Some firms, unable to compete with imports shifted to producing different products.

Zeithaml and Bitner (1996) reports that in the last two decades very large service industries like Banking, Telecommunications, and Trucking were dereguralised in USA. As a result, a lot of turmoil has been witnessed in these industries, accelerating the need for more sophisticated, customer-based, and competition-sensitive marketing.

In Kenya, market liberalization has made the business environment more competitive than ever before. This is supported by studies done in various sectors of the economy. Chune (1998), conducted a study on food manufacturing firms in Nairobi. The objective of the study was to identify any changes in the firms' internal corporate behaviour which could have been brought about by changes in the external environment. Findings of this study showed that competition was stiff due to imported products, and changes in the external environment had led firms to concentrate on their brands and advertising as a competitive strategy.

Mohammed (1995) conducted a study in the motor vehicle industry in Kenya to investigate how the players in this market adjusted their marketing mix elements in order to cope with increased competition arising from the dealers of reconditioned and used motor vehicles. His findings revealed that nearly all the elements of the marketing mix were adjusted.

A study in the dairy industry by Bett (1998) found that due to liberalization, firms in this sector made some adjustments in their marketing mix components in order to adapt to the changed environment and remain competitive in the liberalized industry.
The Kenyan Petroleum sector was liberalized in October 1994 in line with Structural Adjustment Programmes advocated by the World Bank and the IMF. Before liberalization of this sector, the government had substantial influence on procurement, pricing and distribution of petroleum products. Now that this influence is not there and more new players have entered the market, it is necessary to find out how the old players have adjusted their marketing mix in response to the environmental changes.

There are a few studies conducted in the Kenyan petroleum industry. These are; Abeka (1996), Njuguna (1996), and Wamathu (1999). All these studies were conducted in the areas of strategic management. Abeka (1996) sought to identify the types of strategic responses the petroleum industry players were deploying to gain competitive advantage after liberalization. His findings showed that the industry players chose differentiation strategy and the low cost based approach. When Abeka was conducting his study, the industry players had experienced liberalization climate for less than two years only. Indeed, according to the Ministry of Energy, new players (both local and foreign), had not started their operations - they had just been licensed. Therefore the market place was by then not as dynamic and challenging as it is now - when five years after liberalization have elapsed and with over 100 new entrants in operation.

Njuguna (1996) conducted his study at the same period as Abeka (1996). Again, by this time the old players were trying to settle in the new environment. Njuguna’s study sought to investigate and document strategic practices in Kenya’s oil companies. He found that Kenyan Oil Companies are generally involved in formal strategic practices.

The study conducted by Wamathu (1999) sought to establish the strategic posture for each of the major players in the Kenyan Petroleum industries. Findings of this study revealed that all the players were in the aggressive posture and the generic strategy being pursued by each of them was cost leadership.

All these studies [Abeka (1996); Njuguna (1996); Wamathu (1999)] have offered a useful insight on the general area of strategic management in Kenyan Oil Companies. However,
none has focused on changes in Marketing mix in relation to the prevailing market conditions in the oil industry, and especially when a period of five years has elapsed since liberalization and more than 100 new entrants are in operation.

2.2 MARKETING MIX
Marketing mix is one of the key concepts in modern marketing theory, Kotler (1998), Zeithaml and Bitner (1996). Kotler defines marketing mix as the set of marketing tools that a firm uses to pursue its marketing objectives in the target market.

Fifield (1998), observes that the term ‘Marketing mix’ has been used as a short hand way of describing the combined activities of the marketing functions. He argues that the first true marketing mix was outlined by Bordon N.H in 1965. Bordon had attempted to sum up the complete range of marketing activities. Bordon’s list was developed further in 1975 by McCarthy who reduced it down to four major sub-headings known as the ‘four Ps’ i.e. product, price promotion and place (Fifield 1998). Fifield further reports that in 1981. Booms and Bitner looked again at the marketing mix and suggested an expanded marketing mix having 7 Ps. The three added Ps being physical evidence, process and people. The seven Ps mix was developed specifically to deal with the marketing of services, which differ from, manufactured products in a number of ways (Irons 1998, Palmer 1998). According to Fifield (1998), these additional three elements are brought in to broaden the marketer’s attention beyond the mechanical product-price-place-promotion myopia.

On the use of marketing mix, Cravens et al (1996), have noted that it has numerous pieces that must be appropriately combined for a successful end result. These variables must be consistent with one another, and ideally they complement one another for a synergetic result. Palmer (1998), argues that these variables are arranged into manageable subject areas for making strategic decisions.
2.2.1 Product

Product is the most basic marketing mix tool. It is the firm’s offer to the market. The product area is concerned with developing the right “product” for the target market. This offering may involve a physical good, a service, or a blend of both (McCarthy and Perreault 1993).

Cravens et al (1996), have noted that decisions regarding the product can be made at the levels of strategic business unit, product mix level, product line level and at specific product attribute level. Decisions regarding the number of independent units to handle products targeted to markets that differ from one another, are made at the strategic business unit level. At the product mix level, decisions made are those regarding the width, depth and internal consistency of products that are often organised into product lines.

Cravens, et al (1996) further observes that decision like the length of the line, position of products within the line, and dropping of lines are all made at the product line level. On the other hand, Kotler (1998), observes that, at the specific product level, decisions made are those regarding attributes like, quality features, brand names, packaging and sizes.

In addition to the above decisions, Churchill and Peter (1995), points out that companies can enhance their chances of success with a new product if they are systematic about developing it.

2.2.2 Place

Place is concerned with getting the “right” product to the target market’s place. A product reaches customers through a marketing channel. Stern and El-Ansary (1996), defines marketing channels as sets of interdependent organisations involved in the process of making a product or service available for use or consumption.

A marketing channel performs the work of moving goods from producer to consumers. It overcomes the time, place, and possession gaps that separate goods and services from those who need or want them. (Kotler, 1998).
Managing the distribution channels is vital to a product's success. Marketers should select the channel based on characteristics of the target market, the organisation's marketing objectives, the nature of the product itself, the intermediaries, and the marketing environment. The channel must be efficient and provide the level of coverage desired by the products. Changes in the marketing environment—such as regulations and the economic climate—are also key factors (Churchill and Peter 1995). Kotler (1998) observes that various decisions on place (distribution) can be based on: type of channels, coverage, assortment, locations, and inventory.

### 2.2.3 Promotion
Promotion includes all the activities that the company undertakes to communicate and promote its product to the target market (Kotler 1998). According to Churchill and Peter (1995), it is through marketing communications that organisations deliver messages to their target market. They further add that from an organisation's standpoint, this information may have several purposes. It may increase awareness of the product, demand for a product, or it can distinguish it from competition products. In addition, marketing communications may enhance the value of the product, increasing the likelihood that members of the target market will be favourably predisposed towards it. Kotler (1998) summarises promotion decision areas as: sales promotion, advertising, sales force, public relations, and direct marketing.

### 2.2.4 Price
In addition to developing the right product, distribution (place), and promotion, marketing managers must also decide the right price. Churchill and Peter (1995), stresses that price is the element of the marketing mix that links marketing considerations to economic considerations. Kotler (1998), defines price as the amount of money that consumers pay for the product. On the other hand, Stanton et al (1994), defines price as the amount of money and/or other items with utility needed to acquire a product.

Firms set their product's base price depending on pricing objectives. According to Stanton et al (1994) major price objectives are; to earn a target return on investment or
on net sales, maximise profits, increase sales, hold or gain a target market share, stabilise prices and to meet competition's prices.

Besides the firm's pricing objective, other key factors that influence price setting are demand for the products, competitive reactions, strategies planned for other marketing-mix elements, and cost of the product (Stanton et al. 1994). Churchill and Peter (1995), point out that the final step in setting prices is to select various ways to adjust the list or quoted price. They add that the marketer should adjust the price, in ways that support the overall marketing strategy.

Palmer (1998) points out that price mix decisions include strategic and tactical decisions about the average level of prices to be charged, discount structures, terms of payment and the extent to which price discrimination between different groups of customers is to take place. Rao et al (2000), adds that price is increasingly the weapon of choice when companies want to ward off competitors in the battle to capture the customer.

2.2.5 People

This reflects the importance of staff, sales and service personnel in the customers' choice of which service to purchase. Fifield (1998) observes that, as more and more competitive activity shifts from the tangible to the intangible, then the selection, recruitment, motivation and training of the right personnel becomes more important to all organisations. He further argues that, the customer's perception of service quality will be made up from a number of fairly different diverse factors i.e.; the attitudes of staff; internal relations; the observable behaviour of staff; the level of service – mindedness in the organisation; the consistency of appearance of staff; the accessibility of people; and customer- customer contact.

Kotler (1998), adds that ideally employees should exhibit competence, a caring attitude, responsiveness, initiative, problem solving ability and goodwill.

2.2.6 Process

According to Fifield (1998), 'process' reflects involvement of the customer in the operations/production process. He observes that there are two aspects to the 'process'
element of the mix, which have a strategic dimension: degree of customer contact; and quality control standards

A marketer should be more concerned in ensuring that any operation process works cleanly and efficiently at those points where there is direct customer contact. It is specifically these points of customer contact that the ‘process’ element of the marketing mix needs to be managed most carefully. The customer should be able to see an overall logic and consistency to organisation’s operations (Fifield 1998).

Fifield further stresses that quality control standards can, and should be set for service operations in the same way as for manufacturing. He suggests that standards should always be driven by the market place (represented in the organisation by marketing) and should not be set by internal production – led benchmarks.

2.2.7 Physical Evidence

‘Physical evidence’ reflects the special importance of increasing the tangibility of services with physical representations. It describes the various tangible elements, which a firm uses to facilitate the purchase and consumption of an intangible service product.

According to Fifield (1998), customers tend to form impressions of a service organisation partly through physical evidence such as buildings, furnishings, layouts, and goods associated with the service, like carrier bags, tickets and brochures. Palmer (1998), adds that the appearance of staff can give evidence about the nature of a service; and a clean, bright environment used in a service outlet can help reassure potential customers at the point where they make a service purchase decision.

2.3 Marketing Research

Many authors have defined marketing research in different ways. However the most exhaustive definition has been given by the American Marketing Association as quoted in Churchill (1991: p. 9) i.e.;

Marketing Research is the function which links the consumer, customer, and public to the marketer through information – information used to identify and define marketing opportunities and problems; generate, refine, and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process. Marketing research specifies the information required to address these issues; designs the method for collecting information; manages and implements the data collection process; analyses the results; and communicates the findings and their implications.
The importance of Marketing research in business firms has been emphasised by several scholars and authors Viz; - Luck and Lubin (1992); Lehmann et al (1998); Kotler (1998); McDonald (1995) etc. Indeed some even argue that marketing research should be included in the extended concept of marketing mix and be referred to as “Probe”.

Recently, all over the world, many managers in business firms have increasingly come to value more the information provided by marketing research. This has been prompted by the changes taking place in the market place. For instance, with economic liberalization, the general business environment has changed significantly leading to increased competition. This calls for marketing managers to be experts on competition so as to device successful marketing strategies in order to remain competitive. If managers have to fully understand competition, they must be having the right information at all times. This information can be provided by marketing research activities.

Kotler (1998) points out that marketing managers have steadily expanded their activities and techniques over the years. Kinnear and Root (1994) while listing marketing research activities of 435 companies in U. S. A, grouped them under the following “sub-headings:

(i) Business/Economic and Corporate Research
(ii) Pricing studies
(iii) Product studies
(iv) Distribution studies
(v) Promotion studies
(vi) Buying behaviour studies.

2.4 PETROLEUM INDUSTRY IN KENYA

Petroleum is a major source of commercial energy in Kenya. According to the Economic Survey of 1993, about 80% of commercial energy consumed is derived from oil with electricity and coal accounting for the balance. Intense exploration of oil in the country was done in the late 1980s and early 1990s, with no major discoveries being made. Consequently, the country continues to rely entirely on imported petroleum for its local consumption (Economic Survey, 1998).
2.4.1 Situation before Liberalisation Of 1994

According to the Ministry of Energy, the players in the industry comprised of: The Government, National oil Corporation of Kenya (NOCK), The Kenya Petroleum Refineries Ltd (KPRL), the Kenya Pipeline Company (KPC) and the marketers.

The government controlled the industry in matters relating to policy through the Ministry of Energy and to a lesser extent through the National Oil Corporation of Kenya (NOCK). Pump prices of petroleum products used to be set by the government.

NOCK was established in 1981 and became operational in 1985 with the government owning 100% of its shares. It was operating in two areas; - promotion of exploration of petroleum by the international oil industry and the importation of crude oil.

The Kenya Petroleum Refineries Ltd. (KPRL) was running and still runs the refinery facility, which converts crude oil into finished products (e.g. diesel, petrol, Jet A-1) and fuel oils. The government owns 51% of the shares and it is managed by multinational oil companies.

The Kenya Pipeline Company (KPC) was and still transports refined fuels from Mombasa to other parts of the country. The pipeline has been extended to Nairobi, Nakuru, Eldoret and Kisumu.

Marketers refer to oil companies (mostly multinationals) that deal with finished oil products and have outlets for their distribution. Before liberalisation these were; Agip, Shell/BP, Caltex, Esso (now Mobil), Total, and the local shareholdings of Kobil/Kenol. (Ministry Of Energy, Agenda 94').

Traditionally, the above oil companies made requisite import license application to the government in order to import crude oil. The crude oil was and still is processed by the Kenya Petroleum Refineries Ltd. (KPRL) to whom the importing company pays a processing fee. The oil companies then market their products under individual brand
names to the public through their services stations and other dealer outlets (Institute of Economic Affairs).

2.4.2 Situation after Liberalisation of 1994

The government deregulated the petroleum sector in 1994. It therefore liberalised procurement, distribution and pricing of petroleum products. After these changes the following has been witnessed in the market: -

- New entrants have entered the market and competition has therefore intensified. Some of these entrants are from outside the country like Engen and ELF. Others are independent local filling stations licensed by the government to operate in various parts of the country. These are approximately 100 in number according to the Ministry of Energy.

- National Oil Corporation of Kenya (NOCK) has moved into downstream oil business. It has so far developed its retail network of five service stations, (Ministry of Energy 1999).

- Six major players still dominate the market of petroleum products in Kenya. These are Shell/BP, Total Kenya Ltd., Mobil (K) Ltd., Agip (K) Ltd., Kobil/Kenol and Caltex Oil Kenya Ltd. [Mobil (K) Ltd., acquired Esso (K) Ltd., in 1997].

- Some industry players felt the need to have an organised body which could liaise with the government over industry policy issues or jointly articulate the industry’s concerns. This led to the formation of Petroleum Institute of East Africa (PIEA). This institute was incorporated on April, 1999 and commenced its operations in July, 1999 (Institute’s first annual report). PIEA is a Petroleum industry forum for all marketers, both local and international, as well as professionals with interest for growth and stability of Oil and Gas industry in East Africa. It is funded entirely by members who include: major oil companies, new marketers, government agencies, service and equipment providers, engineers interested in this sector as well as private individuals.
3.0 CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Type of Study
This study was a census survey of the descriptive type. It achieved its objectives by collecting and analysing data from six petroleum (oil) companies in Kenya.

3.2 Population of Interest
The population of interest in this study consisted of all the six oil firms in Kenya, which were operating before the petroleum industry was liberalised and are still operational. (See appendix I). It was perceived that, these firms, having operated in a pre-liberalized (regulated) era, and now operating in a liberalised era, could have found the two scenarios quite different. They were therefore expected to have altered their approach to the market in order to continue operating successfully in the liberalized environment.

3.3 Data description and collection
The study used primary data, which was collected, by use of a questionnaire containing both open-ended and close-ended questions.

Personal interviews were found to be the most appropriate mode of data collection. This was due to the fact that there were many variables being investigated and some of the issues raised needed supplementary information. In addition this made it easier for the researcher to explain questions the respondents were unclear on. According to Parasuraman (1986), personal interviews have the potential of yielding the highest quality of data compared to other modes. It also tends to be more flexible.

The researcher succeeded in conducting personal interviews in four companies.

The “drop-and-pick later” method was also used where personal interviews were not possible. This helped to eliminate the non-response rate. Two companies in the research filled out the questionnaire using this method.
The respondents for the study were persons vested with the responsibility of marketing the firms’ products. These were the heads of marketing or other positions mandated to play the functions of marketing.

3.4 Data Analysis

Data in this study was analysed using descriptive statistics. These includes tables, proportions and mean scores. Mean scores were calculated from the responses, which were rated on a 5-point Likert scale. The scale had 1 taken as the lowest level of adjustment (very much decreased) and 5 taken as highest level of adjustment (very much increased).

The mean scores were calculated as follows;

\[
\mu = \frac{\sum_{i=1}^{n} X}{n},
\]

Where,

- \( \mu \) = Mean score
- \( X \) = Score per question
- \( n \) = Total number of companies
- \( \sum_{i=1}^{n} X \) = Absolute score.
4. CHAPTER FOUR
DATA ANALYSIS AND FINDINGS

4.1 Introduction
This chapter deals with data analysis and findings of the research. The data is summarised and presented in form of proportions, means and tables. It documents whether the firms have changed their marketing mix elements, the nature of these changes, and the new challenges they are facing as they operate in a liberalized environment. Data was collected from all the six firms in the population of interest. These are; Agip (K) ltd., Caltex (K) ltd., Kenol/Kobil, Mobil (K) ltd., Total (K) ltd., and Shell/BP Kenya ltd. The study focused on all these companies, which had been established in Kenya before October 1994.

4.2 Overview of companies' characteristics
A general overview of all the six firms in the population of interest is presented in the section.

4.2.1 Period of establishment of oil firms in Kenya
Respondents were asked to indicate the period when their firms were first established in Kenya (even if originally established under different names). Their responses are as summarised in table 1 below;

Table 1: Year of establishment

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of companies</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

n=6

As indicated in table 1, all the oil companies in this study were established in Kenya at different time periods. The oldest having been established before 1930 and the most recent in late sixties. The Kenyan oil industry can therefore be considered to be fairly old.

*For each firm, this also refers to (where applicable), the previous business name under which it was originally established.
4.2.2 Oil firms and their products

Since there are various petroleum products in the market, respondents were required to indicate which particular type of products their companies trade in. The results are as shown in table 2.

Table 2: Oil firms and their products

<table>
<thead>
<tr>
<th>Product type</th>
<th>No. of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Fuel: petrol, diesel, paraffin, jet fuel</td>
<td>6</td>
</tr>
<tr>
<td>2. Lubricants &amp; related products</td>
<td>6</td>
</tr>
<tr>
<td>3. Petroleum related chemicals</td>
<td>3</td>
</tr>
<tr>
<td>4. Bitumen</td>
<td>6</td>
</tr>
<tr>
<td>5. Liquefied Petroleum Gas (LPG)</td>
<td>5</td>
</tr>
<tr>
<td>6. Cooking/lighting appliances</td>
<td>5</td>
</tr>
</tbody>
</table>

n=6

From the above table it is clear that, apart from petroleum fuel, which is the most common petroleum product, the six oil companies also trade in a diverse range of other petroleum products. All the companies trade in lubricants and bitumen, while petroleum related chemicals are sold by three companies only. Only one company is not in the LPG business and it is the same company which does not deal with cooking/lighting appliances. This can be attributed to the fact that, among the six companies it is the only one, which has no loading arms for LPG (i.e. gas storage facilities).

4.2.3 Organisation of Marketing / Sales Departments

In any organization, sales/marketing department plays a vital role in implementing marketing programmes. After confirming that such a department exists in every organization, respondents were probed further to indicate how these departments are organized in their respective companies. Table 3 below presents these findings.
Table 3: Criteria used to organise marketing/sales departments

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Number of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Product</td>
<td>6</td>
</tr>
<tr>
<td>2. Market served</td>
<td>6</td>
</tr>
<tr>
<td>3. Geographical area</td>
<td>6</td>
</tr>
</tbody>
</table>

From the above table, it can be seen that all the six companies use product, market served and geographical area to organise their sales / marketing departments. This can be attributed to the fact that the oil industry is very dynamic and in some areas very specialised. Therefore in order for the companies to effectively serve their customers, they have segmented their markets using all the above three variables.

4.2.4 Number of Sales Outlets per Company

The number of sales outlets each company has is as indicated in table 4 below. (the companies are referred to as A,B,C,D,E and F).

Table 4: Number of sales outlets

<table>
<thead>
<tr>
<th>Company</th>
<th>No. of outlets</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>90</td>
</tr>
<tr>
<td>B</td>
<td>100</td>
</tr>
<tr>
<td>C</td>
<td>100</td>
</tr>
<tr>
<td>D</td>
<td>100</td>
</tr>
<tr>
<td>E</td>
<td>150</td>
</tr>
<tr>
<td>F</td>
<td>165</td>
</tr>
</tbody>
</table>

All these outlets are retail points mainly for petrol, diesel, paraffin, lubricants and LPG - which serve the general public and are spread all over the country. A further probe revealed that the number of sales outlets per company keeps on changing with time due
to the fact that companies are; opening new outlets, acquiring outlets from one another (as leases/contracts with dealers expires), or due to closure of non-profitable outlets.

4.3 Changes in Product Strategies

In this section, the study sought to find out the various changes made in the element of product. Tables 5A and 5B below indicates the nature of these changes.

Table 5A: Changes in product strategies

<table>
<thead>
<tr>
<th>Type of change:</th>
<th>Whether effected changes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of companies for:</td>
</tr>
<tr>
<td></td>
<td>YES</td>
</tr>
<tr>
<td></td>
<td>NO</td>
</tr>
<tr>
<td>Introduction of new product</td>
<td>3</td>
</tr>
<tr>
<td>Packaging (size)</td>
<td>5</td>
</tr>
</tbody>
</table>

n=6

Table 5B: Changes in product strategies (Rated on Likert scale)

<table>
<thead>
<tr>
<th>Change:</th>
<th>Absolute score</th>
<th>Mean score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emphasis on Brand name</td>
<td>27</td>
<td>4.5</td>
</tr>
<tr>
<td>Quality of service in the outlets</td>
<td>30</td>
<td>5.0</td>
</tr>
</tbody>
</table>

It is clear from table 5A that, 3 companies out of 6 introduced new products in the market, while five companies altered their packaging attributes. A further probe into both these changes showed that they were all made in the lubricant category of products. This is due to the fact that lubricant is one category of petroleum product which is easy to differentiate in the market. The researcher also found out that oil companies introduced smaller cylinders for cooking gas in the market. This was aimed at making it available to that segment of the market which can only afford it in smaller sizes.
Table 5B indicates that emphasis on brand name had a mean score of 4.5. In a 5-point Likert scale, this is interpreted to mean that there was a moderate increase in use of brand name to further differentiate the products in the market. This was mainly for the lubricants range of products. Quality of services offered in the petrol stations had a mean score of 5, implying that it was very much increased in all the six companies. The aim here is to ensure that services offered are professional and differed significantly from those of new entrants. It is in this regard that a manager in one of the oil companies stressed that for some customers, the quality of service received at an outlet is even more important than price. He further added that his company is now managing its service stations so as to ensure customers are accorded the same high standards of service in all the outlets run by the company.

4.4 Changes in Price Strategies
Regarding the price element, respondents were asked to indicate changes their companies have made as they operate in a liberalized petroleum industry. Their responses are as presented in the tables shown below.

Table 6A: Change in price strategy

<table>
<thead>
<tr>
<th>Type of change</th>
<th>Whether effected changes</th>
<th>No. of companies for</th>
<th>No. of companies for</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td>Offering different prices in different regions</td>
<td>6</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

Table 6B: Changes in price strategies (Rated on Likert scale)

<table>
<thead>
<tr>
<th>Change</th>
<th>Absolute score</th>
<th>Mean score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of discounts</td>
<td>28</td>
<td>4.67</td>
</tr>
<tr>
<td>Emphasis on use of credit cards</td>
<td>24</td>
<td>4</td>
</tr>
<tr>
<td>Payment period for credit purchases</td>
<td>22</td>
<td>3.67</td>
</tr>
<tr>
<td>Credit limit for credit purchases</td>
<td>22</td>
<td>3.67</td>
</tr>
</tbody>
</table>
From table 6A, it can be seen that all the six companies are now offering different prices in different regions for the same product(s). After the industry was liberalised, and price controls removed, companies are now free to offer different prices to suit their various strategies in a competitive market.

Table 6B. shows that use of discounts had a mean score of 4.67, which can be interpreted to mean that its use was very much increased after liberalization. Respondents argued that bulk customers are now more demanding and to avoid losing them to competition, frequent use of bigger discounts is inevitable.

Emphasis on use of credit cards had a mean score of 4, which meant that companies moderately increased the emphasis on use of these cards. The aim here is to maintain a loyal clientele and reduce their chances of buying from competitors.

Payment period and credit limit for credit purchases each had a mean score of 3.67. This can be approximated to a value of 4. It therefore implies that after liberalization, companies were flexible enough to allow an upward adjustment on these two credit terms in line with increasing demand for the same in the new environment. A further inquiry revealed that companies are no longer penalising dealers who are late in paying. Previously, oil companies would withhold supplies to such dealers. One respondent went ahead to add that due to the current stiff competition in the industry, oil companies are even stepping in to help their dealers meet operating expenses.

4.5 Changes in Distribution Strategies
This section aimed at finding out the changes made in the element of distribution by companies in their attempt to adapt to the liberalized petroleum market. The findings are shown in tables 7A and 7B below.
TABLE 7A: Changes in distribution strategies (Likert scale ratings)

<table>
<thead>
<tr>
<th>Change:</th>
<th>Absolute score</th>
<th>Mean score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facilities offered in service outlets</td>
<td>30</td>
<td>5</td>
</tr>
<tr>
<td>Number of Transporters</td>
<td>13</td>
<td>2.17</td>
</tr>
<tr>
<td>Number of services stations</td>
<td>22</td>
<td>3.67</td>
</tr>
<tr>
<td>Dropping of small orders so as to optimise on sales</td>
<td>26</td>
<td>4.33</td>
</tr>
</tbody>
</table>

Table 7B: Changes in distribution strategies

| Type of change:                  | Whether effected change | | |
|----------------------------------|-------------------------|-------------------------|
|                                  | No. of companies for YES | No. of companies for NO |
| Thorough review of service station contracts | 6                        | -                       |
| Appointment of agents to distribute in areas not serviced by company outlets | 5                        | 1                       |

n=6

From table 7A, it can be seen that facilities offered in the service outlets had a mean score of 5. This is taken to mean that such facilities were very much increased after liberalization. To this end, the researcher found out that companies have actually been rebuilding their respective retail chains into new images complete with shops, tyre centre and cafeterias. Previously these facilities were only present in a few selected outlets. Regarding this new change, a marketing manager in one of the oil companies had this to say:

"Nowadays profit margins are very low and we have been forced to develop alternative sources of income within our distribution chain to supplement our earnings".

Such a trend has been observed in some European countries by Shultz (1999) while explaining the high growth rate of service station retailing (convenience stores) in these
countries. He reports that in France and Switzerland, profits in petroleum products are increasingly tight and on their own do not enable a point of sale to become profitable. Respondents in this study added that their respective companies are now focusing more on developments of convenience stores in most of their service stations. Indeed, two oil companies confirmed that they have already entered into partnership with operators in the fast food business to open branches in their selected service stations.

The number of transporters had a mean score of 2.17 (table 7A) which translates into a moderate decrease in their numbers in the liberalized environment. The reason behind this is that companies had to maintain a few efficient transporters who could deliver without much logistical problems.

Table 7A also shows that the number of service stations had a mean score of 3.67. This is close to a value of 4 and can be interpreted to mean that there was a moderate increase in number of distribution outlets after the petroleum sector was liberalized. In the new competitive environment, companies had to open new outlets, which are strategically placed in a bid to increase their individual share of the market. However, on being probed further, respondents added that those outlets, which proved unprofitable, had to be closed down.

In the same table, dropping of small orders which one company referred to as “milk run” had a mean score of 4.33. This means that there was a moderate increase of this trend after liberalization, as no company is willing to lose any order to competition. To this end, respondents stressed that any order, of whatever size, is now being delivered within the shortest time possible. Before liberalisation companies used to wait for orders to reach an “economical level” to be delivered.

Table 7B reveals that all the six companies had to thoroughly review their contracts/agreements with service station dealers. This was to secure them from being taken away by other marketers. The same table also shows that 5 companies out of 6 had to appoint independent agents/distributors to cover areas not serviced by company outlets and
previously considered inaccessible. In this aspect, one respondent confirmed of his company having recently bought a distributor with a strong presence in such areas. The move was aimed at improving the company’s market penetration strategy.

4.6 Changes in Promotion Strategies

Respondents were asked to rate on a 5-point Likert scale how their companies had altered various attributes of promotion element in their attempt to adjust in the changed petroleum market. The results of these ratings are as presented in table 8 below.

Table 8: Changes in Promotional strategies

<table>
<thead>
<tr>
<th>Type of change:</th>
<th>Absolute score</th>
<th>Mean score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of advertising</td>
<td>29</td>
<td>4.8</td>
</tr>
<tr>
<td>Advertising budget (annual)</td>
<td>29</td>
<td>4.8</td>
</tr>
<tr>
<td>Use of sales promotion</td>
<td>19</td>
<td>3.17</td>
</tr>
<tr>
<td>Sales force</td>
<td>23</td>
<td>3.8</td>
</tr>
<tr>
<td>Use of public relations tools</td>
<td>26</td>
<td>4.33</td>
</tr>
<tr>
<td>Sponsorship of events/charities</td>
<td>18</td>
<td>3.0</td>
</tr>
</tbody>
</table>

From the above table, both use of advertising and annual advertising budget had a mean score of 4.8 each. This is interpreted to mean that both were very much increased after liberalization. Use of sales promotion scored 3.17, which is interpreted to mean a no change situation. Therefore companies did not alter much on their usage of sales promotion.

Sales force had a score of 3.8. This can be approximated to a value of 4 indicating that there was a moderate increase on the number of sales force in the new market environment.

Use of public relations tools had a score of 4.33, which is interpreted to mean that there was a moderate increase in their usage during the era of liberalization.

Sponsorship of events/charities scored a value of 3.0, implying that the status quo remained as that of pre-liberalisation era.
4.7 Changes in People (Personnel) Strategies

The aim of this section was to find out all the changes made by oil companies on the element of people as they operate in a liberalized environment. These changes are indicated in tables 9A and 9B below.

Table 9A: Changes in personnel (Likert scale ratings)

<table>
<thead>
<tr>
<th>Change:</th>
<th>Absolute score</th>
<th>Mean score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training Programmes for company’s marketing personnel</td>
<td>24</td>
<td>4.00</td>
</tr>
<tr>
<td>Training areas for company’s marketing personnel</td>
<td>25</td>
<td>4.17</td>
</tr>
<tr>
<td>Training programmes for dealers</td>
<td>25</td>
<td>4.17</td>
</tr>
<tr>
<td>Training areas for dealers</td>
<td>23</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Table 9B: Changes in personnel

<table>
<thead>
<tr>
<th>Change:</th>
<th>Whether effected change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of companies for: YES</td>
</tr>
<tr>
<td>Improved methods of motivating staff</td>
<td>6</td>
</tr>
<tr>
<td>Improved methods of motivating dealers</td>
<td>6</td>
</tr>
</tbody>
</table>

n=6

Table 9A shows that training programmes for companies’ marketing staff had a score of 4 while training areas scored 4.17. Both these values are interpreted to mean a moderate increase in each of these aspects during liberalization.

The rationale behind this is that the new environment has enabled customers to be more demanding than ever before, and therefore considerable training had to be done for staff especially in the area of customer service.
Table 9A also shows that training programmes for dealers had a score of 4.17 while their areas of training had a score of 3.8. Both these values are interpreted to mean that there was a moderate increase in frequency and type of training offered to dealers after liberalization. Dealers, like the companies’ staff, had also to be trained on customer service in order to offer better services in a competitive environment.

From table 9B it can be seen that all the companies have made improvements in the way they motivate their staff and dealers. The market is now very competitive and those who are performing well must be kept motivated to continue with the trend and encourage the rest. For this reason two companies pointed out that they are now rewarding the best performing dealers by offering them overseas trips among other methods. They added that this never used to happen in the pre-liberalization era.

4.8 Changes in Process Strategies

Regarding the element of process, respondents were asked to rate how they have adjusted various attributes as they operate in a changed market environment. The results are as presented in the table below.

<table>
<thead>
<tr>
<th>Change</th>
<th>Absolute score</th>
<th>Mean Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time taken to process orders</td>
<td>7</td>
<td>1.17</td>
</tr>
<tr>
<td>Delivery time to dealers/customers</td>
<td>6</td>
<td>1.00</td>
</tr>
<tr>
<td>Monitoring quality in all areas of delivery process</td>
<td>30</td>
<td>5.00</td>
</tr>
</tbody>
</table>

From the above table it can be seen that time taken to process orders had a mean score of 1.17, while delivery time had a score of 1.0. These values are interpreted to mean that the two time elements were very much decreased during this era of liberalization. This could be attributed to the increased need of being very efficient to avoid delays, which could lead to shortages in the distribution outlets.
The above table also shows that monitoring of quality in all areas of delivery process had a mean score of 5.00. The interpretation here is that monitoring of quality was very much increased after liberalization. This could be due to the fact that, after the Petroleum sector was liberalized there has been many reported cases of fuel adulteration. This normally compromises the quality of petroleum products. Companies are therefore forced to constantly and thoroughly monitor quality in all areas of delivery process.

4.9 Changes in the element of Physical Evidence

In this section the study sought to find out the changes made on the element of physical evidence by oil companies in their attempt to adjust in a changed market environment. These findings are presented in table 11 below.

Table 11: Changes in the element of Physical Evidence

<table>
<thead>
<tr>
<th>Change</th>
<th>Whether effected change</th>
<th>No. of companies for YES</th>
<th>No. of companies for NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased renovation/modification of service outlets</td>
<td>YES</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>More emphasis on good appearance of personnel at services outlets.</td>
<td>YES</td>
<td>6</td>
<td>-</td>
</tr>
</tbody>
</table>

n=6

It is clear from table 11 that all the six oil companies have been renovating/modifying their service outlets more in this era of liberalization than earlier before. The same table also shows that all the companies are now relatively laying more emphasis on good appearance of staff at the outlets than before liberalization. Both these two changes have been made in pursuit of creating a pleasant environment for serving customers.
4.10 Changes in Marketing Research

Respondents were asked to indicate whether after liberalization their firms had increased their marketing research activities. These findings are presented in table 12 below.

Table 12: Number of companies which have Increased Marketing Research activities

<table>
<thead>
<tr>
<th>Change:</th>
<th>Whether effected change:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of companies for YES</td>
</tr>
</tbody>
</table>
| Increase in Marketing Research activities        | 5                        | 1                      

n=6

A further probe revealed that all the above five companies have increased their research activities in the following areas: -

(a) Industry/market characteristics and trends
(b) Market - share analysis
(c) Competitive pricing analysis
(d) Competitive product studies
(e) Distribution related studies
(f) Promotion related studies
(g) Buying behaviour studies

Table 12 shows that 5 companies reported of having increased their marketing research activities after liberalization while only one company did not.

With the turbulence, which is there in the petroleum market, companies have seen the need to put more effort in monitoring the market and keep being informed of what is happening or about to happen. In addition, the prevailing intense competition in the industry calls for more data or research output before any marketing strategy is designed and implemented.
4.11 New problems and challenges faced by oil companies in the liberalised environment.

On being asked to list the new problems and challenges they are facing in the liberalised environment, all the six oil companies listed the following:

(i) Unfair playing ground arising from illegal activities of the new local entrants while the government is not doing enough to arrest the situation i.e.:

a. Putting up of inferior filling stations, some of which pose a threat to the safety of the public.

b. Operating mobile filling stations.

c. Increased incidences of fuel adulteration.

d. Increased incidences of petroleum meant for export finding its way in the local market. (diversion).

(ii) Price Wars.

Cases of putting up inferior filling stations, operating mobile filling stations, fuel adulteration and diversion of petroleum meant for export are all illegal and contravenes the petroleum act. All the six oil companies interviewed blamed these activities on the new local entrants. They also pointed out that the situation is worsened by the government not doing enough in taking disciplinary action against the culprits. The consequence is unfair playing ground as all the six oil companies stressed that they have been faithfully adhering to the petroleum act. Respondents added that, together with some other players, they have formed the Petroleum Institute of East Africa (PIEA) as a body responsible in liaising with the government over industry policy issues or jointly articulate the industry’s concern.

On price wars, the companies interviewed said that there are two ways of looking at this. One is that the above mentioned illegal activities enable those who practice them to charge lower retail prices. This is to the disadvantage of the established oil companies (those interviewed) who adhere to the industrial rules and standards.
The other is on the commercial end of business where the big players dominate. Here, price is a very relevant competitive tool and companies are fighting hard not to loose this segment to one another.
5.0 CHAPTER FIVE
DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Discussions
The first objective of the study was to establish whether petroleum companies have adjusted their marketing mix to cope with the changes in the environment after liberalization. The second objective was to determine the nature of these objectives. As far as these two objectives are concerned, the study shows that all the six oil companies had to re-examine their marketing mix elements and adjust them accordingly in order to cope with the new environment.

On the product related strategies the study revealed that packaging, brand names and quality of services were all adjusted and used as strategic tools for product differentiation. Changes in packaging were reported in lubricants and cooking gas categories, where containers of smaller sizes were introduced. This finding is similar to what Majumdar (1996) found in India after liberalisation of the Indian economy. He reports that in the paint industry, one company attained great success by its innovative decision to offer paints in small containers—which made it available to many users.

This study on the Kenyan Petroleum Industry has found that oil companies are now increasingly promoting their respective brand names in the market than during the pre-liberalisation era. In addition, quality of services has very much been improved in all points of delivery. Similar results were obtained by Chune (1998) and by Mohammed (1995). In his study on food industry, Chune found out that the changed business environment had led to firms concentrating more on their brands in order to differentiate their products from those offered by competition. Mohammed's study on motor vehicle industry revealed that firms had to positively review the quality of services offered to customers as competition intensified in the liberalized motor industry.

As for the element of price in the liberalised era, oil companies are now more flexible on terms of purchase. They are offering more discounts in order to gain more business and are more flexible on credit terms. This is in contrast to the scenario before liberalisation, where all the companies were very strict and rigid on discounts and credit terms offered.
to dealers and customers. Such findings were also reported by Mohammed (1995) in the motor vehicle industry.

On distribution, petroleum companies have made several changes in response to the changed business environment. They have all increased facilities offered in their service outlets. Strategically located outlets are now having shops, tyre centres and cafeterias. Schultz (1999) has also observed such developments in Europe, where almost all service stations are reported to have fully equipped convenience stores. The spreading of this trend in Kenya can be explained by the fact that most of the firms investigated in this study are subsidiaries of multinationals, which have a strong presence in Europe. They have therefore transferred this concept of convenience stores to Kenya.

This study also reveals that after liberalization of the petroleum industry, firms moderately increased the number of distribution outlets and agents. This can be attributed to the fact that all the firms aimed at further penetrating the market and capturing more of its share. This finding corresponds to what Owiye (1999) found in his study on the liberalized sugar industry. He reports that liberalization had led to sugar firms creating more distribution channels and outlets as they sought to establish close links with customers.

Promotional programme has also been identified in this study as being much adjusted during the era of liberalization. Due to stiff competition firms had to increase both the awareness of their presence in the market and demand for their products. They therefore increased their sales force, stepped-up the use of advertising, sales promotion, and public relations tools. Increases in promotional activities due to liberalization has also been reported in the Motor Vehicle industry by Mohammed (1995) and in the dairy sector by Bett (1995).

Regarding the element of people (personnel), petroleum firms have made some adjustments. They are now more than ever before, laying more emphasis on training of their staff and dealers. This can be explained by the fact that, after liberalization the
industry is now facing new issues, which calls for all those concerned to be well informed in order to effectively handle them. Company employees and outlet managers needed training on how to handle issues like fuel adulteration, managing of convenience stores and on how to lobby as a group for the government to create a fair trading field for all. Investing in personnel training due to changed business environment has been observed in France by Busa (1999). He reports that due to growth of convenience stores in France's petroleum industry, oil companies had to channel funds into merchandising training courses for their managers. Locally, Kombo (1997) has also reported of increased investments in training of managers in the motor vehicle industry after it was liberalized.

In a move to respond to the needs of customers and new challenges in the industry, oil companies have improved some attributes in their process strategies. This study found that companies are now processing customers' orders faster and have even drastically reduced delivery time. They have also stepped up monitoring of quality of all petroleum products in the delivery process. This has been prompted by the increased incidences of tampering with petroleum products on transit. These incidences have been put in the limelight during the current era of liberalisation.

As for the element of physical evidence, oil companies have tried to position their service outlets as places where customers can enjoy being served in a pleasant environment. To this end, companies have been refurbishing old service stations to appear modern and more appealing to customers.

In the area of marketing research, this study revealed that five companies out of six have increased their marketing research activities due to the rapid developments taking place in the liberalised petroleum market. Competition has become stiff in this industry forcing firms to become more proactive in their efforts to harmonise marketing strategies in order to remain competitive. These firms are therefore turning to marketing research to get more relevant and detailed information, which can enable them, anticipate changing conditions. This way, they will be able to come up with plans of action for the future.
The third objective of this study was to establish whether oil companies are facing new challenges or problems as they operate in the liberalised environment. All the respondents in this study confirmed that due to liberalisation, they find themselves operating in an un-levelled playing ground due to the activities of many of the new entrants in the industry. They added that, these new entrants are flouting the industry’s rules and regulations without the appropriate authorities taking the necessary action to deter them. The new entrants have been accused of, putting up inferior filling stations, which pose threats to the safety of the public, operating mobile filling stations, adulterating fuel and diverting petroleum products meant for export into the local market. All these are illegal activities as they contravene the Petroleum Act. Such activities make it difficult for the organisations studied to benefit from most of the changes they have made in the elements of the marketing mix. These findings correspond with those of Owiye (1999). Owiye observed that in the liberalised Kenya’s sugar industry, unfair competition exists as new entrants trade in imported sugar, which is not taxed. However, the findings (on this study of petroleum industry) differ with those of Njuguna (1996). Njuguna had based his study on the same oil companies. He found out that the new entrants were of least concern to the established oil firms. The difference in findings could be explained by the fact that by the time Njuguna was conducting his study i.e. 1996, the new entrants had not started operating. The few that had been granted licences had not commenced any operations. Furthermore, the players in the industry by then could not foresee new entrants flouting the laid down rules and regulations of the oil sector. Now that they are doing so, their activities are of concern to those who observe the rule and regulations of the industry.

The study also established that oil companies are facing the challenges of operating in a field full of price wars. Before liberalisation, this was not an issue as petroleum prices were uniform and used to be fixed by the government. After liberalisation, companies are now free to set their own prices. They are therefore using price as a weapon in their battle to capture more customers. This is especially so in the commercial end of business as compared to retail. The respondents’ concern on price wars is valid since this can create economically debilitating situations that take an extraordinary toll on a company
and industry profitability. Rao et al (2000), argues that no matter who wins in such a battle, all combatants seem to end up worse off than before they joined the battle.

5.2 Conclusions
Marketing managers normally manipulate the elements of the marketing mix to achieve their objectives in a set target market. When the market conditions change, marketing mix elements are also adjusted in order for the set objectives to be realised. This is exactly what has happened with the companies investigated in this study. They had to be innovative and sought for new ways of approaching the change environment, as the market is no longer the predictable one they were used to before liberalisation.

The study has revealed that changes in products offered in the market were effected in the attributes of packaging, brand name and quality of services. This was a strategic move to differentiate the products in a competitive market.

On pricing, companies have become more flexible on payment terms as indicated by extension of both credit limit and credit period. In addition bulk customers are being offered more discounts and use of credit cards is being highly promoted to individuals as well as to fleet owners.

On distribution, this study found that oil companies have made remarkable changes in their service outlets. Stiff competition resulting from liberalisation has lowered profit margins of petroleum products forcing companies to develop alternative sources of income to supplement their earnings. This has speeded up the establishment of convenience stores in service outlets. In this aspect, companies are seeking to position their outlets as places where customers can enjoy a wide range of services in addition to buying of petroleum products. In a bid to increase their market share, oil companies have also opened up more service stations across the country and diversified the distribution chain by recruiting more distributors and resellers. The study also revealed that in the current era of liberalisation, oil companies have realised the need to thoroughly review
contracts/agreements of service stations to secure them from being taken away by other marketers.

Stiff competition and the turmoil in the petroleum industry as a result of liberalisation has forced oil companies to make several changes in the element of promotion. Use of advertising was reported to have been very much increased. Respondents also reported having moderately increased their sales force and use of public relations tools. Due to the entrance of new players – some of who are not adhering to the industry’s practices, the respondents confirmed that they are now using press releases and lobbying as a united group against those flouting the industry’s rules and regulations.

As the petroleum industry continues to be more dynamic and challenging, oil companies have recognised the need to empower their staff and dealers with the necessary skills suitable for operating in a liberalised environment. They have therefore increased and expanded training programmes for both their staff and dealers. Also reviewed positively are methods of motivating these groups to perform or continue performing better in a challenging and a difficult environment.

Oil companies in this study have also been found to be widening their competitive avenue by focussing on service/operational efficiency as well as renovating service outlets to appear modern and appealing to customers. They have also increased their marketing research activities in order to monitor the market and keep being informed of happenings in this dynamic industry. Furthermore, the prevailing intense competition calls for more data or research output before any marketing strategy is designed and implemented.

Regarding the new problems/challenges facing the companies studied, the findings reveal that these are related to the unfair playing ground existing in the market. After liberalization, numerous cases of dumping and of unfair competition associated with adulteration have been witnessed. New entrants in the market have been accused of engaging in these activities. Such cases create an extremely critical situation for companies in this study, which observe the rules and regulations set in the industry. In an
environment like this they cannot therefore obtain maximum benefits from the changes made in their marketing mix elements.

What has already been witnessed is certainly not the last and more developments are expected to continue unfolding in future. Indeed when data was being collected for this study, an old and a major player in the industry - Agip (K) was planning to decamp from the Kenyan oil market. It did not take long for this to be confirmed as at the time of compiling the study Kenya Shell/BP announced that it was taking over Agip (K).

On the other hand, the Government has produced a new petroleum bill to replace the current 1948 Petroleum Act - Cap 116 (revised in 1972) to cater for the interests of all stakeholders in the Oil and Gas industry (Petroleum Institute of East Africa). The bill, has for the first time, laid down specific standards for a number of activities within the wide array of operations common within the Oil and Gas sectors. It is hoped that the bill will soon be brought before parliament and if passed will become law.

Another issue raising concern in the petroleum industry is the desire for members of Parliament to introduce a Bill in Parliament to regulate and control prices of petroleum. This has been prompted by frequent increases of pump-prices of petrol, diesel and kerosene.

All these issues will definitely have an impact on marketing of petroleum products and further adjustments in the marketing mix are inevitable.

Undoubtedly, liberalisation of the petroleum industry in Kenya has very much affected the operations of oil companies. Those companies, which operated in pre-liberalisation period and are still operating in the liberalised era (target group of this study), have experienced remarkable differences in their marketing activities. After the industry was liberalised, decisions that used to be tightly controlled by the government are now within the control of individual firms. In addition, more new players have entered the market.
Due to these developments the oil industry has become more complex and very much unpredictable.

5.3 Recommendations

It is clear that the changing environment in the Kenyan Petroleum sector calls for new perspectives and innovative marketing tools to face the challenges arising from liberalization. Companies should be more agile so that they can respond with greater rapidity to the competition present in an increasing deregulated environment where the watchword is "Less state and more market."

Various changes, which the oil companies have made in the elements of marketing mix, should be properly harmonized to achieve the desired results. At the same time, where there exists an opportunity for more beneficial changes to be implemented, this should be exploited to the fullest. Companies should therefore seize the opportunities offered by retailing and make the most of their distribution network. To this end, the study recommends that convenience stores in the distribution network should not be confined to Nairobi area only (as most of them are). They should also be opened up in strategically located sites in other major towns. This is of course after thorough feasibility studies are carried out to determine the viability of each location.

Additionally, facilities offered in the outlets should continue being increased to further cater for the new needs of the motorists, e.g. offering mobile phone sets, phone cards and related accessories. Availability of more facilities in service stations will transform them from being simple "Petrol pumps infront of garages" to places where it is possible to simultaneously satisfy the needs of people and vehicles.

Petroleum fuel (in form of Petrol, Diesel, Kerosene or Jet fuel) is a commodity, which cannot easily be differentiated. Companies should therefore attain differentiation in other ways. This study recommends the use of quality service. By increasingly focussing on the manner in which petrol is retailed, companies can improve on the service offered in an outlet. Indeed this study earlier pointed out that, to some customers, quality of service
offered in an outlet is more important than price alone. Consequently service should be employed as a vital weapon to establish a competitive edge in the market. All the companies in this study are established players in the market and have financial capabilities of making their outlets as places offering quality service. They should therefore utilize this potential to differentiate all their outlets in the market by establishing such a competitive edge.

As a result of the unfair playing ground existing in the petroleum industry, oil companies in this study are not realizing the full benefits of the changes they have made in the marketing mix elements. All these firms are members of the recently formed Petroleum Institute of East Africa. They should therefore actively use this body to lobby for the government to create a safe, healthy and environmentally acceptable petroleum industry, that is based on professional standards and the principles of a fair, level playing field.

Finally, in a competitive petroleum market where profound changes are frequently unfolding, all the concerned marketers should strategically be analysing the environment on a continuous basis. Ability to anticipate coming changes and prepare accordingly is certainly crucial. However, it should be realized that for any scenario, there is no stereotyped solution and the answer lies in innovativeness in thinking and implementing plans and strategies with timely and right actions.

5.4 Limitations of the study

Due to the nature of this study, the researcher intended to collect all the data from the six firms forming the population of interest, by use of personal interviews so as to gather more underlying information and clarify issues where necessary. This was possible with four firms only. Data from the other two firms was collected by use of “drop and pick later” method. This limited the gathering of additional relevant information from these two firms.
5.5 Suggestions for Further Research

This study documents the changes made in the marketing mix of oil companies in Kenya as a result of liberalization of the petroleum sector. It was based on only those established oil firms, which operated in a pre-liberalized environment and are still operational. After liberalization there are now new players in the industry. The researcher therefore recommends a study to be conducted to determine the marketing strategies used by these new players as they operate in a competitive petroleum market. Such a study will complement this one in providing information on marketing activities in the whole petroleum sector.
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APPENDIX I

OIL COMPANIES OPERATING IN KENYA BEFORE Deregulation of the Petroleum Sector in 1994.

1. AGIP (K) LTD
2. TOTAL (K) LTD
3. ESSO (K) LTD
4. CALTEX OIL CO. LTD
5. KENOL/KOBIL
6. SHELL/BP

Source: GOK; Ministry of Energy
Dear Sir/Madam,

I am a postgraduate student at the University of Nairobi. In Partial fulfilment of the requirements for the award of Masters in Business and Administration Degree, I am conducting a study titled "Marketing in a Liberalized Petroleum Industry: - A Study on changes in Marketing Mix of Oil Companies in Kenya."

Your firm has been selected to form part of this study. This therefore is to kindly request you to grant me an appointment to interview you on how liberalization of Petroleum industry has affected your firm's marketing activities. The interview will aim at completing the attached questionnaire, which forms an integral part of this research project.

The information/data provided will be used exclusively for academic purposes and will be treated with strict confidence.

Your co-operation will be highly appreciated.

Yours faithfully,

Samuel K. Wairachu
MBA Student

Encl.

Mrs. Margaret Ombok
(Lecturer, Faculty of Commerce),
Supervisor
APPENDIX III
QUESTIONNAIRE
PART A

Please answer the following questions by giving the necessary details in the spaces provided.

1. Name of your organization ______________________________________

2. Year your organization was established in Kenya _____________________________

3. Which products do you market in Kenya?
   (Tick where appropriate)
   (a) Fuels: Diesel □
        Petrol □
        Paraffin □
        Jet fuel □
        Liquefied Petroleum Gas (LPG) □

   (b) Lubricants □

   (c) Chemicals □

   (d) Bitumen □

   (e) Any other (specify) __________________

4. Do you have the following departments?
   (a) Sales: Yes □ No □
   (b) Marketing: Yes □ No □

5. How have you organized your Marketing/Sales Department?
   (tick where appropriate):
   In terms of products □
   In terms of market served □
   In terms of geographical area □
   Any other (specify) __________________

6. How many service outlets do you have in the country?
   __________________________________________

50
PART B

This section aims at obtaining information on the changes your company has made on the Marketing Mix Variables due to the changed market environment arising from the Liberalization of the petroleum sector in Kenya.

Please answer as directed in each section.

PRODUCT

Indicate by ticking in the appropriate box or by specifying in the spaces provided whether your company has made the following changes/adjustments.

1. Introduced new product(s) in any of the product category.
   
   Yes  □    No  □
   
   If Yes, name the product category __________________________

2. Made changes in packaging any of your products?
   
   Yes  □    No  □
   
   If yes specify the product category __________________________

On a rating of 1 – 5, tick the box, which best describes the level of adjustment you company has made in relation to the statement on the left.

Where:

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<th>1 = Very much decreased.</th>
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<td>Moderately decreased.</td>
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<td>Not changed.</td>
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<td>4</td>
<td>Moderately increased.</td>
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<td>5</td>
<td>Very much increased.</td>
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3. Emphasise on brand name  [ ] [ ] [ ] [ ] [ ]

4. Quality of services in the outlets  [ ] [ ] [ ] [ ] [ ]
PRICE

Indicate by ticking in the appropriate box whether your company has made the following changes.

5. Offering different prices for the same product in different regions?
   Yes □ No □

6. Changed the pricing policy?
   Yes □ No □

On a rating of 1 – 5, tick the box, which best describes the level of adjustment your company has made in relation to the statement on the left.

Where: 1 = Very much decreased. 2 = Moderately decreased. 3 = Not changed. 4 = Moderately increased. 5 = Very much increased.

1 2 3 4 5

7. Emphasise on use of credit cards [ ] [ ] [ ] [ ] [ ] [ ]
8. Payment period for credit purchases [ ] [ ] [ ] [ ] [ ] [ ]
9. Credit limit for credit purchases [ ] [ ] [ ] [ ] [ ] [ ]
10. Use of discounts [ ] [ ] [ ] [ ] [ ] [ ]

DISTRIBUTION

11. Have you reviewed the nature and terms of contract with your service station dealers?
    Yes □ No □

12. Have you been appointing agents with distribution network to reach areas where you do not have a service outlet?
    Yes □ No □
On rating of 1 – 5, tick the box which best described the level of adjustment your company has made in relation to the statement on the left.

Where:  
1 = Very much decreased.
2 = Moderately decreased.
3 = Not changed.
4 = Moderately increased.
5 = Very much increased.

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<td>13. No. of service stations</td>
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<td>14. No. of transporters</td>
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<td>15. Dropping of small orders so as to optimise on sales</td>
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<td>16. Facilities offered in the service stations</td>
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PROMOTION

On a rating of 1 – 5, tick the box which best describes the level of adjustment your company has made in relation to the statement on the left.

Where:  
1 = Very much decreased.
2 = Moderately decreased.
3 = Not changed.
4 = Moderately increased.
5 = Very much increased.

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<td>17. Use of advertising</td>
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<td>18. Advertising budget (annual)</td>
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<td>19. Use of Sales promotion</td>
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<td>20. Sales force</td>
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<td>21. Use of public relations tools</td>
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<td>22. Sponsorship of events/charities</td>
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23. Have you made improvements in the way you motivate your service station dealers?
   Yes ☐ No ☐

24. Have made improvements in the way you motivate your marketing and sales force?
   Yes ☐ No ☐

On a rating of 1–5, tick the box which best describes the level of adjustment your company has made in relation to the statement on the left.

   Where: 1 = Very much decreased.
           2 = Moderately decreased.
           3 = Not changed.
           4 = Moderately increased.
           5 = Very much increased.

   1 2 3 4 5

25. Training programmes for company’s [ ] [ ] [ ] [ ] [ ] staff

26. Training scope (areas) for company’s [ ] [ ] [ ] [ ] [ ] staff

27. Training programme for dealers [ ] [ ] [ ] [ ] [ ]

28. Training scope (areas) for dealers [ ] [ ] [ ] [ ] [ ]
PROCESS
On a rating of 1 – 5, tick the box which best describes the level of adjustment your company has made in relation to the statement on the left:

Where:
1 = Very much decreased.
2 = Moderately decreased.
3 = Not changed.
4 = Moderately increased.
5 = Very much increased.

29. Time taken to process orders

30. Delivery time to dealers/customers

31. Monitoring of quality in delivery process

PHYSICAL EVIDENCE
32. Have you been renovating/modifying service stations to make them more attractive?

Yes ☐  No ☐

33. Have you been emphasising on good appearance of staff at the service stations?

Yes ☐  No ☐

MARKETING RESEARCH
34. Have you increased your Marketing Research activities?

Yes ☐  No ☐

35. If the answer to the above question (Q. 34) is Yes, please indicate which are these marketing activities by ticking in the appropriate box:

(a) Industry/Market characterised and trends ☐
(b) Market – Share analyses ☐
(c) Competitive pricing analysis ☐
(d) Competitive Product Studies ☐
(e) Distribution Related Studies ☐
(f) Promotion Related Studies ☐
(g) Buying behaviour Studies ☐
36. If there are other changes you have made in your Marketing Mix due to liberalization of the petroleum sector, please specify below:

PART C
After the Petroleum industry was liberalised, what challenges or problems (if any) have you been facing in the following areas: (please specify in the spaces provided).

1. Product

2. Pricing

3. Promotion

4. Distribution
5. Process Management


6. Personnel


7. Physical facilities


8. In any other area (specify)


THANK YOU FOR YOUR CO-OPERATION.