

**THE APPLICATION OF PORTER'S FIVE FORCES MODEL IN ASSESSING THE
ATTRACTIVENESS OF THE MAILING INDUSTRY IN KENYA**

BY

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DECLARATION

I declare, that this research project report is my original work and has never been presented for a degree in any other university.

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D61/P/7139/03

This research project report has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

I dedicate this work to Jehovah God who has faithfully guided and strengthened me to its completion. In him I can do all things (Philippians 4:13).

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I would like thank a number of people to whom I owe the success of this study. Firstly I acknowledge the support and invaluable advice of my supervisor Mr. Maalu during my research work and in writing of this research project report.

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God bless you all.

ABSTRACT

The objective of the study was to establish the extent of attractiveness of the mailing industry in Kenya using Porter's five forces framework. Specifically, the study sought to determine how the attractiveness of the mailing/courier business in Kenya is influenced by bargaining power of suppliers, bargaining power of customers, entry of new players, existence of substitutes, and competitive rivalry within existing industry players.

The study applied a descriptive survey research design. The design involved primary research methods. Field research involved the collection of primary data. The population of the study comprised of 105 postal cum courier operators according to information from the Communication Commission of Kenya. A sample of 40% was drawn from the population. The sample was drawn through stratified random sampling. The stratification was based on the operational categories as defined by the Communication Commission of Kenya. Primary data was collected using a structured questionnaire. The questionnaire was structured into two broad sections. The first section captured background information about the firm while the second section captured information on the Porter's five forces model. The data was analyzed using descriptive statistics namely frequency tallies and the corresponding percentages.

This study established that the supply bargaining power is high within the industry hence the buying industry often faces a high pressure on margins from their suppliers. This relationship to powerful suppliers can potentially reduce strategic options for the mail/courier operators. The bargaining power of customers determines how much

customers can impose pressure on margins and volumes. New entrants have the potential to change major determinants of the market environment (e.g. market shares, prices, customer loyalty) at any time. There is always a latent pressure for reaction and adjustment for existing players in this industry. Substitutes have been found to potentially attract a significant proportion of market volume and hence reduce the potential sales volume for existing players. High competitive pressure results in pressure on prices, margins, and hence, on profitability for every single company in the industry

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LIST OF ABBREVIATIONS AND ACRONYMS

CCK	:	Communication Commission of Kenya
GOK	:	Government of Kenya
ICT	:	Information Communication Technology
KPTC	:	Kenya Post and Telecommunication Corporation
PCK	:	Postal Corporation of Kenya
UPU	:	Universal Postal Union
USO	:	Universal Service Obligation
CIKA	:	Courier Industry Association of Kenya
KIFWA	:	Kenya International Freight and Warehousing Association
R & D	:	Research and Development
NGOS	:	Non Governmental Organizations
UN	:	United Nations
IMF	:	International Monetary Fund
TKL	:	Telkom Kenya Ltd

CHAPTER ONE

1.0. INTRODUCTION

1.1 Background

1.1.1. Industry Attractiveness

One of the challenges presented by a dynamic environment is increased competition. Competition is indeed a complex phenomenon and it determines the appropriateness of a firm's activities that can contribute to its performance. It is about worth, creating it and capturing it. Hax and Maljuf (1995) explained industry attractiveness is the value generated by economic activity of the industry participants as well as the ability to share in the wealth created thereof. The most widely used framework to understand industry attractiveness is Porters five forces model, which provides assessment of the potential for the business to attain a superior profitability by examining the industry structure through the five forces. These five forces determine the intensity of competition and hence the profitability and attractiveness of an industry.

Another parameter used to determine industry attractiveness is the business strength matrix which requires the identification and assessment of both external and internal factors. Critical external factors that are not controlled by the firm are used to determine the overall attractiveness of industry in which the business belongs. Critical internal factors or critical success factors which are largely controlled by the firm are also

identified. Once these factors are identified and assessed each business is positioned in terms of overall industry attractiveness and business strength on a nine-cell grid.

The greater the threats posed by an industry force, the lesser attractive the industry becomes. Understanding what forces are at work enables business owners to develop strategies to deal with them and in turn find unique ways to satisfy customers in order to develop competitive advantage over industry rivals. Cook (1995) explains industry attractiveness is the presence or absence of threats exhibited by each of the industry forces.

Every industry is unique and has its own unique structure. The five forces framework allows a firm to see through the complexity and pinpoint those factors that are critical to industry and its own profitability. Porter (1988) notes in any particular industry not all the five forces will be equally important and the particular structural factors that are important will differ. The five forces framework does not eliminate the need for creativity in finding new ways of competing within the industry. Instead it directs the manager's energies towards those aspects of industry structure that are most important to long term profitability. The framework aims in the process to raise the odds of discovering a desirable strategic innovation.

A company's assessment of the industry and competitive environment directly affects how it should position itself to the industry and what its basic competitive strategy approach should be. Strickland and Thompson (1993) point out industry attractiveness

and competitive conditions are big-strategy determining factors. For firms to be able to retain competitive advantage they need to examine the environment, both internal and external, and respond accordingly (Porter 1985).

Once external uncontrollable factors are identified, there arises a need to determine how much each contributes to the attractiveness of the industry to which the business belongs. The resulting assessment is heavily dependent upon judgment. A true understanding of a business invariably requires managerial insight. Assessing external factors is a systematic process that imposes order on the subjective judgment managers provide in an overall diagnosis of a business. The quantitative approach is highly questionable. Within its apparent objectivity, it hides the inherent complexities of quantifying very subtle issues. Controllable success factors are normally evaluated by comparing them with those of the leading competitor in the business under consideration. A successful strategy for a business should put together a set of well integrated programs for R&D, production, marketing, finance and distribution (Majluf and Hax, 1983).

One of the challenges presented by a dynamic environment is increased competition. Competition is indeed a complex phenomenon, one that is manifested not only in other industry players but also in form of customers, supplier, potential entrants, substitute products, the government and social welfare organizations. It is important for a firm to understand the underlying sources of competitive pressure in order to formulate appropriate strategies in response to the competitive forces (Porter, 1980).

1.1.2. The Mailing Industry

For many countries, the posts have been an essential part of the national infrastructure and in fact were driven by national political objectives and public policy bounded the management and focus of the mailing sector. Traditionally there was little competition which allowed the postal operators to ignore market forces (Universal Postal Union, 2006). The industry has however been undergoing dramatic structural changes and today faces competitive conditions completely different from those prevailing a few years ago. The sector is evolving from the domain of traditional postal operators to a more complex market environment with somewhat less government support and direction and which includes many other stakeholders.

Like most other countries, there has been a trend towards partial or complete deregulation of the strategic, stated-owned or sponsored commercial activities which includes Posts. The European Commission (1997) in the first Postal Framework Directive presided over the opening of the postal sector to competition. This was the first major step towards liberalization of Posts in Europe which was later adopted by developing countries. The objective was to open the postal market competition in a gradual and controlled way, whilst simultaneously safe guarding the basic principles of the Universal Service Obligation (USO), which encompasses delivery of one class of letter mail, sealed against inspection at a uniform rate nation-wide and at an affordable price.

World Bank and Regional Development banks have been key drivers in postal reforms in developing countries. The GOK, with consultation with IMF and World Bank adopted

Economic reforms (1996-1998), which led to passing of two Bills, the Kenya Communication Act (1998) and the Postal Corporation Act (1998) that allowed the separation of postal and telecommunications services. These reforms led to the restructuring of Kenya Post and Telecommunication Corporation (KPTC) culminating in its split to three entities viz. Telkom Kenya Ltd (TKL) offering telephony services, Postal Corporation of Kenya (PCK) offering postal services and Communication Commission of Kenya (CCK) as the licensing and regulatory body of the communication sector.

Following liberalization of the postal sector, the purely monopolistic environment has been eroded resulting in direct and indirect competition in the national market with the entry of non-postal operators such as local and multinational corporations in transport and message delivery businesses, other Posts and Technology. Coupled with increased globalization, trade barriers are being broken and everything is working towards an increasingly interdependent operating network.

The Telecommunication and Policy Guideline (1999) paved way for liberalization and the licensing of other postal firms and since then the regulator has licensed 105 courier firms. PCK however remains the sole licensed public operator and because of the (USO) provision, the regulator reserves exclusive rights to PCK on letters weighing up to 350 grams, operation of private letter boxes and the issuance/sale of the postage stamp. The European Commission also adopted a second Postal Frame Directive (2002) scheduling the full liberalization of postal services. If the path remains unchanged, all postal services shall possibly be open to competition by 2009 but based on impact studies especially in

developing countries; the trade-off between public service and commercial viability has been difficult.

The courier firms are licensed under six business categories viz. International Operators with extensive international networks, International Inbound receiving international articles for local distribution only, Regional Operators operating within the East African trade block, Intra–Country Operators with nationwide network, Intra-City Operators with specific city operations, and Document Exchange Operators. The mailing sector broadly carters for delivery of bills, statements, money transfer, business communication, personal correspondence, goods transfer, publications and advertising. Couriers add value to ordinary postal services through features such as speed, security, track and trace, proof of delivery, specialization, individualization of services and committed delivery times at a premium price. The fundamental mission of the postal/courier sector is timely and reliable collection, dispatch and delivery of mail to all household and business clientele.

Posts find themselves in the kind of competitive position not envisioned a decade ago. Besides electronic communication alternatives, Post is in combat for market shares that are being lost to private express service competitors (Polito, 2004). Study done by CCK (2001) on the courier market segment gave the market share for PCK as 3%, Securicor Courier Services 60%, others 37%. The same study indicated the postal market revenue base to stand at Kshs.4.14 billion. It projected the growth to reach Kshs.30 million within five years. With the GDP current growth of 3.5-4.5 % (Economic Survey: 2008) this target would be achievable if postal services are well propagated to meet customers'

changing needs. The world-wide postal service has unique assets i.e. universal coverage, full service capacity, trained work force and prime locations.

Postal operators find themselves at crossroads since the market is changing. Yet mails remains one of the most powerful distribution service and marketing tool available in the world today (Moran, 2006). Statistics show more than 96% of the worlds population is served by posts making it perhaps the most expansive communication and delivery service in the world. The network is made up of about 700,000 outlets with 6.2 million employees and handling an annual total of 430 billion mail items in domestic and almost 10 billion in international service (Leavey, 2000).

Growing core mail business is not easy and the mailing sector is facing a big challenge from substitute products. Study by Amez-Droz and Gognialt (2005) predicted an annual average growth rate of 2.5% for world physical mail volumes and 4.2% for Africa between 1995 and 2005. Actual annual average growth for Africa between 1995-1999 was 3.1%. This is an indication that though the world letter would grow, other communication market sectors would grow at a faster rate implying the posts will loose market share to other forms of communication.

The postal sector operates as part of the communication industry that in recent years has undergone dramatic change due to advances in technology in form of facsimile, electronic communications and other technologies (Stanton, Robert and Lambert, 2004). New communication technologies have eroded much of the buffering monopoly provided

to the postal sector (Cato Institute, 1995). Technology itself is a disruptive force to long established practices and business processes. Electronic mail and mobile technologies for example are a big threat to traditional mail revenue base. The Internet and World Web have had a powerful impact on business and society in many countries as customers are influenced by new communication technology. It is not possible to ignore the ability of the internet to unlock a company's wall, to discover and exploit opportunities outside its existing businesses or beyond its current technical or operational capabilities (David, 1998). McFarlan (1984) in his study added the IT dimension to explore ways to exploit and counter the five forces. Adding IT content could create value or reduced costs of or make it difficult for new entrants or substitute products to be successful.

Technology however is not an end in itself but rather a means to serve customers and become more internally efficient. Letter business can represent a lesser activity and revenue earner for existing and upcoming operators. The players can diversify to other co-related businesses e.g. logistics, express services and integrated service offerings (Clermont, 2004). In the Beijing Congress Strategy (2000-2004), the UPU position on new technologies was that, allowing substitution for physical mails must not invariably be perceived as threat to the Post, even though, in the long run they have a negative effect on physical mail volumes, rather they are first opportunities to be seized for creation of new postal products and new institutional options. Although technology is changing the way to do business it does not change the way people evaluate the economic value created by companies or traditional rules of competition. The creation of economic value is the final arbiter for business success (Porter, 2001).

Developments in the information systems, postal automation and retail, logistics and distribution technology will change postal operations and even create gaps between operators who have been able to invest in sophisticated technologies and those who have not. Study by Bowes (2004) found that the increasing sophistication of the global market has attracted suppliers and vendors who have expanded their focus from national perspectives. Mc Farlan (1984) agrees IT links with suppliers and customers would increase the power of the organization within the market. In some cases the postal sector players are compelled to partner with suppliers for solutions. For example PCK has partnered with a local ICT firm, Africa Pay to launch its recent money transfer service, 'Posta Pay'. Jersey Post partnered with Pitney Bowes a supplier of postal automated technology to assist in leveraging advance technology in the delivery of bills and bank statements. After realizing 30% of their mails included bills and bank statements, they requested Pitney Bowes for a multi-channel solution to handle the bills and statement electronically. The challenge was turned to a competitive advantage through creation of a service that satisfied the customers' unique need.

Customers in the postal sector are increasingly exposed to competitive alternatives whether from technological substitutes or alternative delivery services. The era of taking customers for granted is long gone (UPU, 2006). These forces of competition continue to drive customers' decisions in the mailing sector. Globalization, a powerful force across industries is increasing international trade and immigration patterns. In the past the postal sector was country-specific and operators focused on domestic operations. Merchants and

the ordinary customers are now less restricted by distance and national boundaries hence their communication needs are constantly changing.

Though mail service is fast becoming just part of a larger communication market the public operators especially because of their national outlook and wide infrastructure remain a choice for many. A national survey by Opinion Research Corporation in 1995 found 76% of Americans favored government delivery of mail but wanted the public operator to be more flexible, business-like and responsive to their needs. The consumers felt that despite some flaws, postal service is the best way to deliver mail for every one at a reasonable price. To remain relevant the players in the sector have to be innovative to meet customer's expectations and developing needs. DHL Worldwide Express for example recently launched a retail operating system in Kenya that allows customers to make transactions using electronic smart cards in their Express centers. While the cards offer quick service, the firm is able to access personalized information about its customers. PCK is also in the process of launching a debit card.

The government imposes legislative entry barrier through the regulator who licenses all the operators. The postal sector is predominantly labor intensive and relatively few barriers exist for existing or new entrants. The players choose their target market segment according to license condition and operating capacity. This explains the fragmentation of the industry and the increased competitor rivalry.

1.2. Problem Statement

The world of business today is being transformed by globalization and technological advancement with the two being key drivers in the profitability of many industries. As the world evolves towards a one global village, the environment has become more complex and dynamic. There is increased trade and migration patterns and industries are faced with competition not seen before when business was basically country-specific. Urbanization especially has bred customers who are more sophisticated and industries have to address customer needs on a broader context of globalization and new Information technology. The introduction of the Internet and World Web has had great impact on society and customers are now demanding quality services in terms of speed, accuracy, reliability, customer service and competitive prices. Rapid advancement of internet technology and its application however holds promise for expansion of business opportunities in the global digital economy, as a mechanism of information dissemination and a medium for e-commerce across countries.

Owing to factors of globalization and technology, the mailing industry is also evolving. Traditionally the industry focused on the national operator and its need but the scenario has changed and a global postal market has been created. Competition has grown arising from technological changes, direct competition, changing markets and a software-based economy. Unlike the post office world of paper and mail boxes, electronic mail has eroded the concept of a place or real address. Development of multi-purpose wireless communication and transaction devices has introduced a totally new factor in the business environment. Customers' attitudes and behavior will continue to be influenced

by these communication technologies. Postal operators have to execute bold strategies that enhance the value of conventional mails, introduce innovations, find new markets if they are to remain relevant even in the wider communication industry. On the same strength suppliers in software, logistics and technologies are becoming increasingly important stakeholders of the sector and playing a crucial role in its restructuring and future evolution.

As a result of deregulation and privatization of postal services in Kenya the sector has attracted integrated postal operators who include multinationals like DHL, TNT, Fedex, regional and local players. This has led to combat for market share with the public operator loosing to the private operators on the more lucrative package and express mail market segments. Financial institutions, banks, telephony and public transport operators have quickly moved to compete in the segment of money transfer offering more attractive packages. The interest of more stakeholders has to be considered in the development of postal strategies and policies. For example prices are vetted by the government through the regulator, consumer watchdogs like Karengata Association and the public are more sensitized on quality of service and basic tariff rates. Other interest groups include Courier Industry Association of Kenya (CIAK), Kenya International and Warehousing Association (KIFWA). Competition in the mailing industry has therefore increased arising from Porter's five forces and power of other stakeholders.

Past studies on competition have mostly used Porters generic strategies for example, Karanja (2002); Kitoto (2005); Ogola (2005). Waithaka(2001), Nyale(2001) used the five

forces model in their studies but in different contextual background i.e. analysis of funeral and mobile telephony services respectively. This research in using the five forces model to study the attractiveness of mailing industry will satisfy a knowledge gap and other researchers can use it as a base for further exploration.

1.3. Objectives of the Study

The objective of the study was to establish the attractiveness of the mailing industry in Kenya using Porter's five forces framework.

1.4. Significance of the Study

The findings of the study seek to inform the various stakeholders of the mailing firms in adopting effective strategies that will increase their profitability:

- 1) The managers of mailing firms can use the findings of this research study to improve their marketing and competitive strategies in their firms. They may use the results to understand the market forces and assess the firm's strengths and weaknesses and be able to position themselves in the market.
- 2) Employees can also benefit from the research to ensure that they become committed in marketing of the mailing services provided by their respective firms.
- 3) The Government can also benefit in that it may formulate policies aimed at boosting the mailing operations in Kenya.
- 4) Suppliers may use the research to look into ways of partnering with mailing firms and come up with product innovations and creation of new markets.

5) Researchers may be stimulated to study further especially on ways to explore technological innovations to induce growth of markets for mailing services.

CHAPTER TWO

2.0. LITERATURE REVIEW

2.1. Concept of strategy

Organizations operate in an open environment and therefore require a strategy to deal with environmental forces. Strategic management can be defined as a continuous process aimed at keeping an organization as a whole appropriately matched to its environment (Certo and Peter, 1988). It is the process of making explicit the goals of the enterprise, the environment in which it operates, the strategies and finally the feedback loops that tell the firm whether each of these steps has been identified correctly (Gardner and Rachli, 1986). Strategic management by itself is a process and Robins & Coulter (2002) defines it as the process that encompasses strategic planning, implementation and evaluation. In their view, strategic management process is a way of considering, deciding, and realizing already formulated strategies. Strategy implementation, on the other hand, is concerned with both planning on how the choice of strategy can be put into effect, and managing the changes required (Wang, 2000).

The environment is turbulent, constantly changing and so it makes it imperative for organizations to continuously adapt their activities in order to ensure survival. Pearce and Robinson (1997) observed that for organizations to achieve their goals and objectives, they have to constantly adjust to their environment. Organizations that do not adequately adjust to meet environmental challenges will experience a big problem, a strategic problem (Aosa, 1988). Glueck and Jauch (1984) views strategy as a unified,

comprehensive and integrated plan that relates the advantage of the firm and challenges of the environment and that is designed to ensure the basic objectives of the enterprise are achieved through proper execution by the organization. Strategy is the response of the firm to external environment.

Strategies create a fit among company's activities. The success of a strategy depends on doing many things well - not just a few- and integrating them. If there is no fit among activities, there is no distinctive strategy and little sustainability. The company's activities include its effective interaction with the environment in that these activities are geared towards serving external environment (Porter, 1998). Strategy is a large-scale, future oriented plan for interacting with the competitive environment to achieve company objectives. It is the company's game plan (Pearce and Robinson, 2003). While it does not detail all future development of resources, it provides the framework for managerial decisions. A strategy reflects a company's awareness of how, where and when it should compete and for what purposes it should compete. The underlying issue of this definition is that the main thrust of strategy is to achieve long-term sustainable advantage over the other competitors of the organization in every business in which it participates. It recognizes that competitive advantage results from a thorough understanding of the external forces that impact on the organization.

The forces of external environment are so dynamic and interactive that their impact on any single element cannot be wholly disassociated from impact of other elements. Suave (2002) argued the environment is a critical factor of any organizations survival and

success.. The impact of the general environmental forces tends to surface more in the immediate industry the organization is operating in. Johnson and Scholes (2003) defined the industry as a group of firms producing product or services that are close substitutes to each other. An organization has to understand the competitive forces acting within the industry it's operating in. These forces are used to estimate the profit potential of a market segment and consequently determine the attractiveness of the industry and the way organization may those to operate. These form the basis to decision in the strategic process adopted to gain competitive advantage over players within the industry.

The essence of formulating strategy is relating a company to its environment. Therefore analysis is crucial to the outcome of the total planning process and a major part in the diagnosis of the external environment (Swaan and Waalewijn, 2005). Several tools and techniques have been developed to assist planners in the evaluation and in particular the assessment of profit potential of the industry. Michael Porter's competitive forces model by far is the most widely used framework. These forces constitute bargaining power of buyers, bargaining power of suppliers, threat of new entrants, threat of substitutes, and competitors' rivalry. A sixth force, namely 'other stakeholders' indeed exists. The stakeholders include; the government, the public and social watchdogs. The strongest of the five forces becomes crucial from point of view of strategy formulation. Knowledge of these underlying sources of competitive pressure provides groundwork for a strategic agenda of action. They highlight the critical strengths and weaknesses of the firm, animate the company's market position and clarify the areas where strategic changes may yield the greatest return thus determining an industry's attractiveness.

2.2. Concept of Industry Attractiveness

The profitability of the industry determines the attractiveness of the industry to the entrants and incumbents in the industry. Industry attractiveness is the presence or absence of threats exhibited by each of the industry forces (Cook, 1995). The greater the threat posed by an industry force, the less attractive the industry becomes. Small businesses, in particular, should attempt to seek out markets in which the threats are low and the attractiveness is high. Understanding what industry forces are at work enables business owners to develop strategies to deal with them. This in turn helps them to find unique ways to satisfy their customers and develop a competitive advantage over industry rivals.

Cook (1995) further states that since both you and your competitors are in the same industry the key is in finding the differing abilities between you and the competition in dealing with the industry forces that impact on you. If you can identify the abilities you are superior with, you can use them to establish a competitive advantage over your competitors. Porter's five forces are a premier model for analyzing the industry structure. The collective strength of these forces determine the ultimate profit potential in the industry where profit is measured in terms of long-term return on invested capital. The goal of competitive strategy is to find a position in the industry where the company can best defend itself against these competitive forces or influence them in its favor (Porter, 1980).

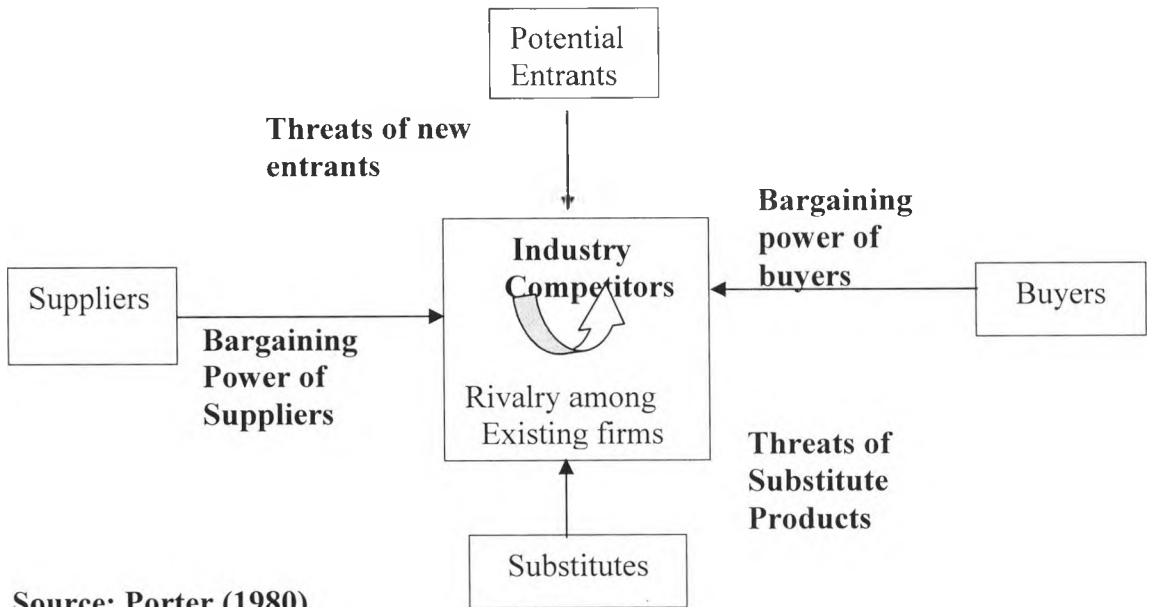
Both industry attractiveness and competitive position can be shaped by a firm and this is what makes the choice of strategy both challenging and exciting (Porter,1988). Hamel

and Prahalad (1994) sum up that in today's business environment the space for survival and growth is highly contested. Competition is not only fierce but competitors are merciless. To be ahead, corporations must have an independent point of view about future opportunities and how to take advantage of them. Path breaking is more useful than imitating others.

2.3. Porter's Five Forces and Industry Attractiveness

A number of factors determine the level of competition within an industry. Several typologies have been developed to categorize these competitive forces. Porter (1980) identified five factors that determine the nature and degree of competition in an industry. They include: bargaining power of suppliers, bargaining power of buyers, threat of substitutes and threat of new entrants. The model known also as Fullerton's five forces uses the concepts developed in Industrial Organization (IO) economics and consist of those forces close to a company that affect its ability to serve customers and make profit. Porter (1980) stated once the forces affecting competition in an industry and their underlying causes have been diagnosed, the firm is in a position to identify its strength and weaknesses relative to its industry. It enables the firm to create an effective competitive strategy through offensive or defensive action in order to create a defensible position against the five forces. Figure 2.1 represents the Porter's five forces framework.

Figure 1: The Porter's Five Forces



Source: Porter (1980)

The first fundamental determinant of industry attractiveness is profitability. Competitive strategy must grow out of a sophisticated understanding of the rules of competition that determine an industry's attractiveness. The ultimate aim of competitive strategy is to cope with, and ideally, to change those rules in the firm's favor. In any industry, whether it is domestic or international, produces a product or a service, the rules of competition are embodied in Porter's five competitive forces. The strategist subsequent design may include, positioning the firm to attract the best customers and defend itself against these competitive forces, influence the balance of forces through strategic moves in the industry and anticipate shifts in the underlying factors and respond to them before the competitors.

The five forces determine industry profitability because they influence the prices, costs, and required investment of firms in an industry. The strength of each of the five competitive forces is a separate function of industry structure, which Porter defined as the

underlying economic and technical characteristics of an industry. Industry structure is relatively stable, but can change over time as an industry evolves. To a considerable degree industry structure is shaped by the choices made by competitors. Structural change shifts the overall and relative strength of the competitive forces, and can thus positively or negatively influence industry profitability (Porter, 2003).

To a large degree, these five market forces collectively determine the ability of a firm, whether large or small, to be successful. Obviously, all industries are not alike. Therefore, each force has varying impact from one situation to the next. Porter identifies numerous elements of industry structure that influence these five factors. Gregory, Lumpkin and Taylor (2005) notes the five forces influence the creation of a competitive advantage as follows; buyer power influences the prices that firms can charge, for example, as does the threat of substitution. The power of buyers can also influence cost and investment, because powerful buyers demand costly service. The bargaining power of suppliers determines the cost of raw materials and other inputs. The intensity of rivalry influences prices as well as the costs of competing in areas such as plant, product development, advertising, and sales force. The threat of entry places a limit on prices and shapes the investment required to deter entrants.

Although the strength in each force can vary from industry to industry, the forces when considered together determine long-term profitability within the specific industrial sector. Collectively the five forces affect prices, necessary investment for competitiveness, market share, potential profits, profit margins and industry volume. The key to success of

an industry and thus the key to the model is the analysis of the changing dynamic and continuous influx between and within the five forces. Based on the information derived from the five forces, the management can decide how to influence or exploit particular characteristic of an industry.

2.3.1. Bargaining Power of Buyers

Before buying a product, a consumer collects information from various sources, such as word-of-mouth information, advertising, and the retailer. The obtaining of information from these sources can all be characterized by the passive role the consumer plays, and their limited ability to obtain the desired direct information. All of these information sources may help create attitudes toward the product that together become the consumer's pre-demonstration purchasing probability. Products are designed and manufactured for representative individuals from a specific consumer target group. Assuming that a product is manufactured with a given design, a consumer will benefit from using the product if his specifically desired design falls into the product's target range of this design (Heiman and Muller, 2001).

Many posts have persisted in the belief that if they simply tell the market the kind of services and products they offer, business will beat a path to their door. In today's environment the question is not 'here is what I have, what do you want to buy?', rather 'what do you need and I build it for you' (Polito, 2004).) For enterprises with global focus, overseas expansion in parcels and logistics has been a major strategic response from postal operators (UPU, 2003). Vertical integration through upward linkages such as air transport, logistical services and warehousing chain has aimed at creation of extra

business and offering customers a virtual one stop shop. Mintroff et al (1994) says the external environment for many companies is characterized by turbulence associated with globalization, deregulation of markets, changing customer and investors' demands and increasing product-market competition. There is growing need in organizations to move beyond solving existing problems to improving continuously in the face of changing conditions (Drucker and White, 1994).

Product demonstration provides the consumer with some information; even if he chooses not to participate actively, it signals to him that the product performs adequately. This information, however, does not resolve the average consumer's uncertainty, since the determination of whether or not the consumer's subjective needs will be met, are not conveyed in this signal. Porter (2003) says buyer power influences the prices that firms can charge, for example, as does the threat of substitution. The power of buyers can also influence cost and investment, because powerful buyers demand costly service. It is forecasted that competition in the postal industry will focus on the large volume mailers and the main mail routes in the country. This customer segment not only contributes the most to the postal operator's revenue but it is also responsible for the size and geographical presence of posts sorting and distribution networks. Identifying the needs and providing appropriate products and services to this group of customers is crucial for the future of posts (Plispanen and Vercaemer, 2004)).

When bargaining power rests in the hands of buyers, powerful buyers can exert pressure on businesses by demanding lower prices, higher quality, or additional services, or by

playing competitors off one another. The power of buyers tends to increase when single customers account for large volumes of the business's product, when substitutes are available for the product, when the costs associated with switching suppliers are low, and when buyers possess the resources to move backward in the distribution chain (Cook, 1995). In the mailing industry, large buyers such as the state corporations, non-governmental organizations and blue-chip companies within the private arena can exert pressure on the mail service providers by demanding special discounts and certain value-added service which can in turn influence the extent of the industry's attractiveness.

Consumers must be seen in a broader context of both globalization and new information technologies. Eighty to eighty five percent of total postal volumes are generated by business customers who are increasingly globalizing. Overall, customers want faster, more reliable postal services, and a wide variety of products - including sophisticated products such as track and trace, high speed sorting centers, discounts, competitive prices that meet their individual requirements. This new environment though challenging offers tremendous opportunities for posts. Most players have created synergies by combining technologies with their traditional counter/sorting networks (Ecorys, 2005).

The bargaining power of customers determines how much customers can impose pressure on margins and volumes. Dagmar (2001) notes customers bargaining power is likely to be high when they buy large volumes; there is a concentration of buyers; the supplying industry comprises a large number of small operators; the supplying industry operates with high fixed costs; the product is undifferentiated and can be replaced by substitutes;

switching to an alternative product is relatively simple and is not related to high costs; customers have low margins and are price-sensitive; customers could produce the product themselves; the product is not of strategic importance for the customer; the customer knows about the production costs of the product; and there is the possibility for the customer integrating backwards.

Mailing industry is influenced by economic growth. Education and income levels drive disposable per capita income which is fundamental to the growth of mailing sector. Age also drives the usage of traditional mails as the younger generation will tend to adopt to new communication technologies. Most developing nations, Kenya included, are experiencing increased urbanization. The United Nations (UN) estimates that from 2003-2030 the world's urban population will grow at 1.8% per annum i.e. it will double with most growth occurring in developing countries (UPU, 2006). The urban population is associated with the more affluent middle class thus a turn around in buyers preference as they will demand more sophisticated postal products.

2.3.2. Bargaining Power of Suppliers

The term 'suppliers' comprises all sources for inputs that are needed in order to provide goods or services. Cook (1995) explains supplier bargaining power is likely to be high when: The market is dominated by a few large suppliers rather than a fragmented source of supply or is more concentrated than the industry it sells to; There are no substitutes for the particular input; The suppliers customers are fragmented, so their bargaining power is low; The switching costs from one supplier to another are high; There is the possibility of the supplier integrating forwards in order to obtain higher prices and margins. The threat

of suppliers is especially high when the buying industry has a higher profitability than the supplying industry; Forward integration provides economies of scale for the supplier; the buying industry hinders the supplying industry in their development, for example, reluctance to accept new releases of products and the buying industry has low barriers to entry. In such situations, the buying industry often faces a high pressure on margins from their suppliers. The relationship to powerful suppliers can potentially reduce strategic options for the organization. Powerful suppliers can squeeze the profitability out of an industry (Dagmar, 2001).

The bargaining power of suppliers determines the costs of raw materials and other inputs. Supplier power can affect the relationship between a small business and its customers by influencing the quality and price of the final product (Porter, 2003). All of these factors combined will affect the firm's ability within the industry it is operating in. The factors will impact on the firm's ability to use its supplier relationship to establish competitive advantages with its customers. Ecorys (2005) recognizes suppliers of postal matters are becoming more important in both hardware and software packages solutions. One may think here of the growing need for advanced sorting technologies or other software like packages in track and trace, scanning and other electronic document management solutions such as electronic data interchange (EDI) and optical reader character (OCR). As such suppliers are significant stakeholders in the postal industry and playing an important role in its restructuring and future evolution.

A supplier group is powerful if they are more concentrated than the industry they sell to, or if the customer group is not important for the suppliers, if the product is an important input to the buyer's business, or they have built up switching costs, or the supplier group poses a threat of forward integration. Swaan and Waalewijn (2005) indicate suppliers can exert their bargaining power over participants by threatening to raise prices or reduce the quality.

There are a number of theories explaining why large buyers obtain price discounts from sellers. A simple theory is that the cost of serving large buyers is lower per unit. Serving large buyers may involve lower distribution costs. For example, the supplier may be able to ship its product to a large buyer's central warehouse rather than having to ship it to the individual retail outlets owned by small buyers. Serving large buyers may involve lower production costs. For example, if the supplier's production function exhibits increasing returns to scale and the supplier serves one buyer at a time each production period, per-unit production costs will be lower when serving a large buyer. Other theories involve more subtle strategic effects. Empirical literature (Horn and Wolinsky, 1986; Stole and Zwiebel, 1996; Chipty and Snyder, 1999; Inderst and Wey, 2003; and Raskovich, 2003) considers a model in which a monopoly supplier bargains under symmetric information separately and simultaneously with each of a number of buyers. Each buyer regards itself as marginal, conjecturing all other buyers to consummate their negotiations with the supplier efficiently.

Size discounts also emerge if one departs from the bargaining model with a monopoly supplier and instead considers competing with suppliers. Snyder (1998) view is that collusion is difficult to sustain in the presence of a larger buyer because the benefit from undercutting and supplying the buyer is greater. To prevent undercutting in equilibrium, suppliers collude on a lower price for large buyers. Buyers can increase the intensity of competition among suppliers of differentiated products by pooling their demands and buying as a group from one supplier (Dana, 2004; Inderst & Shaffer, 2004).

For the mailing industry there is need to think out of the box and be open to new initiatives of harnessing business partnerships with suppliers. Pitney Bowes, a major supplier of postal equipment came up with ideas on how to partner with postal operators to leverage advanced technology to deliver new and innovative solutions. The company's innovative approach and significant investment in research and development has resulted in a combined software and state-of-art system to deliver messages in the format of choice of the customer whether electronically or by physical post. For example the company helped Printel, Italian largest digital printing center, become a pioneer in hybrid mail and today is the world's largest producer of hybrid mail. All major banks in Italy and telecom companies utilize Printel's services for billing and one-to-one customer marketing services. One key driver in mail volume is the convenience factor. By enhancing customers ability to access their services, posts will make mail a more viable and valuable channel for users. Pitney Bowes proposition is based squarely on helping organizations of all sizes use mail and document more efficiently and effectively to communicate with their customers (Bowes, 2004).

2.3.3. Threat of Substitutes

All firms in an industry are competing, in a broad sense, with industries producing substitute products. Substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge (Porter, 1980). Substitute products that deserve most attention are strategically those that are subject to trends improving the price performance trade-off with the industry's product or are produced by industries earning higher profits. Product substitution occurs when a business's customer comes to believe that a similar product can perform the same function at a better price. Substitution can be subtle - for example, in the Kenya mailing industry the mobile telephony technology has introduced the short messaging service and reliable voice communication which has greatly replaced the paper written messaging and telegrams that were traditionally dominated by the post office- or sudden, the office e-mails have replaced the bulk of letters that used to be sent through the post office or courier service from one organization to the other. The main defense available against substitution is product differentiation. By forming a deep understanding of the customer, some companies are able to create demand specifically for their products (Porter, 1980; Cook, 1995).

A threat from substitutes exists if there are alternative products with lower prices of better performance parameters for the same purpose. They could potentially attract a significant proportion of market volume and hence reduce the potential sales volume for existing players (Dagmar, 2001). This category also relates to complementary products. Similarly to the threat of new entrants, the threat of substitutes is determined by factors like brand

loyalty of customers; close customer relationships; switching costs for customers; the relative price for performance of substitutes; and current trends. The firms' most desirable position is where there is no substitute.

Innovation is necessary to address mail volume decline and margin pressures as well as to help posts rise to new performance heights. Players need to develop a better understanding of the link between new electronic technologies and their business. There are successful new models in hybrid mail which demonstrate how technology and traditional mail can be combined so that postal core business is not cannibalized. If posts embrace change and explore new ideas of products and services, the opportunities are limitless and high performance is within reach (Plispanen and Vercaemer, 2004).

There are signs that the posts themselves are encouraging a switch from physical letters as part of strategy to remain viable in a technologically changing environment (UPU, 2003). The mailing industry has managed to turn ICTs into competitive advantage when it comes to innovative products, for example, online shopping for stamps, payment of letter boxes, payment of bills, notification of delivery through e-mail or SMS, electronic transfer of money and electronic post offices (UPU, 2004). Through ICT players are enabled to improve existing services, establish real time management tool, improve working conditions, and lower operational costs. Although ICT is a powerful tool that can help postal operators meet market challenges, it is by no means a miracle solution, it cannot substitute strategy but is only an enabler of strategy.

Established companies that produced and merchandised physical products have managed to digitize information and use internet to transfer it. The use of internet has not changed the basic economic laws but has just changed the way the world does business, the way information is digitalized, packaged and transferred (Evans and Wurster, 1997). This increases value to the consumer and decreased costs to the company. Internet should not be used on a stand alone basis but to enhance the distinctiveness of a firm's strategies (Karagiannopolous, Nikkolopoulous and Georgopoulous, 2005). For example, posts are well positioned to take advantage of the growth in advertising mail through the physical address in form of the letter box. The address is a valuable repository asset that can be developed into a well managed data offering. Posts can leverage the usage by adding address-targeted capability that adds value to advertisers by enabling address lists that are filtered and segmented into social-demographic brackets and thus take advantage of the growing advertising market.

2.3.4. Threat of New Entrants

New entrants bring extra capacity to an industry, the desire to gain market share and substantial resources to do so. Only rarely such as in early product cycle of a totally new product, when they help grow the market, are new entrants relatively benign. Mostly they are threats to be countered by the incumbents. In most industries some of the major barriers to market entry include economies of scale, high capital requirements, switching costs for the customer, limited access to the channels of distribution, a high degree of product differentiation and restrictive government policies.

Microeconomic theory postulates that entry is mainly conditioned by industry attractiveness, namely by the profits incumbent firms are making, by its growth, and by the existence of barriers to entry (Barbot, 2001). High profits usually attract new firms, if entry is free. However, some arguments on the effectiveness of this mechanism have been pointed out. Geroski (1995) presented evidence on the fact that entry reacts slowly to high expected profits, and that only important differences of expected profits among industries may lead to different rates of entry. According to this point of view, profits are a sign of industry attractiveness only if they are relatively high, and the answer by potential entrants is slow. In what concerns the speed of entry as a reaction to high profits, one may argue that it may depend on other factors connected with the entry of a new firm, such as capital and technology requirements, and transaction costs. But these factors are mainly industry-specific, which would lead a conclusion that entry reaction to high profits might depend on the industry (Barbot, 2001).

Geroski (1995) concluded that empirical research results are misleading, because differences among profit rates are steady for a long period of time, while differences among entry rates express deep changes. Industry growth is another important determinant of entry, as growing industries obviously attract new firms. Audretsch (1997) suggested, if empirical evidence shows a strong relation between industry growth and entry, this happens because high growth rates cause a rise in prices, and in the expected rate of profit. So, the final determinant would be the rate of profit, and not growth itself. However the mailing industry can grow by expanding such services as door-to-door deliveries, pick-up services and mail room management.

As for barriers to entry in the mailing industry, structural barriers may exist, namely those connected with economies of scale, and a variable expressing these economies should be introduced. For the most part, there is lack of product differentiation among postal operators. Opportunities in differentiation remain basically in supply chain management, sales and marketing and innovations in information technology (Moran, 2006). Strategic barriers are unlikely to exist, as local market power is limited and mailing firms probably would not be able to develop strategic behavior. Related to barriers to entry are transaction costs. In fact, large transaction costs may prevent or delay entry. On the contrary, the existence of an efficient network of connections to suppliers, and to distributors or retailers, may make entry easier. Survival and exit depend basically on the same variables as entry. Minimal industry profit rates are probably a condition for survival, as well as industry growth, while losses and decline in profitability lead to exit. Barriers to entry offset competition, thus helping survival. Large transaction costs may cause losses or other difficulties, and, so, the exit of firms. And, of course, the existence of sunk costs in an industry affects survival, preventing or delaying exit. In what concerns industry specific determinants, Mata and Portugal (1994) found a positive correlation between survival and industry growth, and a lack of significance for variables such as concentration ratios and minimum efficient scale. Porter (1980, 2003) argued the threat of entry of new rivals places a limit on prices, and shapes the investment required to deter entrants.

Ease of entry refers to how easy or difficult it is for a new firm to begin competing in the industry. The ease of entry into an industry is important because it determines the likelihood that a company will face new competitors. In industries that are easy to enter, sources of competitive advantage tend to wane quickly. On the other hand, in industries that are difficult to enter, sources of competitive advantage last longer, and firms also tend to benefit from having a constant set of competitors. The mailing industry in Kenya faces government legislative entry barrier through the regulator who licenses all operators. The postal sector is predominantly labor-intensive and relatively few barriers exist for existing or new entrants. The players choose their target market segment according to license condition and their operating capacity. This explains the fragmentation of the industry and the increased competitor rivalry.

The ease at which new competitors are able to enter a particular industry can influence its attractiveness (Goodstein, 1992). The ease of entry into an industry depends upon two factors, the reaction of existing competitors to new entrants, and the barriers to market entry that prevail in the industry. Existing competitors are most likely to react strongly against new entrants when there is a history of such behavior, when the competitors have invested substantial resources in the industry, and when the industry is characterized by slow growth. Emergence of new entrants in the Kenyan mailing industry in the late 90's saw the Postal Corporation of Kenya (PCK) make changes in the strategic management of its courier operations. This was in response to the threat posed by new entrants with the view of maintaining its market dominance. Private companies however continue to dominate the market for urgent delivery of mail and parcels while the public operator's

high margin first class mail face serious threats due to these advances. The pace of liberalization is increasing in the postal industry with competition focusing on price, quality of service and innovation. Marketing, in combination with research and development, will need to become more strategic for posts as they try to expand their market and grow profit (Plispanen and Vercaemer, 2004).

The higher the competition in an industry, the easier it is for other companies to enter this industry. In such a situation, new entrants could change major determinants of the market environment, for example; market shares, prices, customer loyalty at any time (Dagmar, 2001). There is always a latent pressure for reaction and adjustment for existing players in this industry. The threat of new entries depends on the extent to which there are barriers to entry. These are typically economies of scale such as minimum size requirements for profitable operations; high initial investments and fixed costs; cost advantages of existing players due to experience curve effects of operation with fully depreciated assets; brand loyalty of customers; protected intellectual property like patents, licenses etc; scarcity of important resources, for example, qualified expert staff; access to raw materials is controlled by existing players; distribution channels are controlled by existing players; existing players have close customer relations, for example, from long-term service contracts; high switching costs for customers; and legislation & government action.

2.3.5. Competitive Rivalry amongst Firms

Competition is at the core of the success or failure of firms. Competition determines the appropriateness of a firm's activities that can contribute to its performance, such as

innovations, a cohesive culture, or good implementation. Competitive strategy is the search for a favorable competitive position in an industry, the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition (Porter, 2003). Two central questions underlie the choice of competitive strategy. The first is the attractiveness of industries for long-term profitability and the factors that determine it. Not all industries offer equal opportunities for sustained profitability, and the inherent profitability of its industry is one essential ingredient in determining the profitability of a firm. The second central question in competitive strategy is the determinants of relative competitive position within an industry. In most industries, some firms are much more profitable than others, regardless of what the average profitability of the industry may be.

Neither question is sufficient by itself to guide the choice of competitive strategy. A firm in a very attractive industry may still not earn attractive profits if it has chosen a poor competitive position. Conversely, a firm in an excellent competitive position may be in such a poor industry that it is not very profitable, and further efforts to enhance its position will be of little benefit. Both questions are dynamic; industry attractiveness and change of competitive position. Industries become more or less attractive over time, and competitive position reflects unending battle among competitors. Even long periods of stability can be abruptly ended by competitive moves (Anker, 1998).

In mailing industry there are a number of strategic options that can lead to success and high performance; product and service innovation, superior customer service, operational

excellence and geographical/cross border expansion. These are examples of successful strategies adopted by leading postal operators like TNT, Deutsche Posts (Moran, 2006). FedEx offers a supply chain solution for its international clients to manage all locations, outbound and inbound shipping as well as warehousing services. The firm has proved itself as a one-stop solution for all companies round the globe offering mailing, shipping and other business services (El-Khamy and Golubav, 2005).

Both industry attractiveness and competitive position can be shaped by a firm, and this is what makes the choice of competitive strategy both challenging and exciting. While industry attractiveness is partly a reflection of factors over which a firm has little influence, competitive strategy has considerable power to make an industry more or less attractive. At the same time, a firm can clearly improve or erode its position within an industry through its choice of strategy. Competitive strategy, then, not only responds to the environment but also attempts to shape that environment in a firm's favor. Finger et al (2005) states there is need to conduct organizational transformation in the mailing industry to create professional structures, change attitudes, move away from conducting business like a political entity and become agile, market driven organizations. Operators have to focus on innovation as the traditional mail market remains a no growth market. Without competition no economic agent has much incentive to control costs, maintain quality or innovate (Ferrara et al 1991).

Competitive advantage grows fundamentally out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it. Value is what buyers are willing to pay,

and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price. There are two basic types of competitive strategies: cost leadership and differentiation. Competitive advantage in one industry can be strongly enhanced by interrelationships with business units competing in related industries, if these interrelationships can actually be achieved. Interrelationships among business units are the principal means by which a diversified firm creates value, and thus provide the underpinnings for corporate strategy (Porter, 1980; 2003). The intensity of rivalry influences prices as well as the costs of competing in areas such as plant, product development, advertising, and sales force.

The battle waged against industry's competitors is one of the strongest industry forces that each of the firm in that particular industry would seek to contend (Cook, 1995; Anker, 1998). Competitive battles can take the form of price wars, advertising campaigns, new product introductions, or expanded service offerings - all of which can reduce the profitability of firms within an industry thus making it less attractive. The intensity of competition tends to increase when an industry is characterized by a number of well-balanced competitors, a slow rate of industry growth, high fixed costs, or a lack of differentiation between products. Another factor increasing the intensity of competition is high exit barriers - including specialized assets, emotional ties, government or social restrictions, strategic inter-relationships with other business units, labor agreements, or other fixed costs- which make competitors stay and fight even when they find the industry unprofitable.

2.3.6 Power of Other Stakeholders

There is great influence from institutional forces on an industry in the form of the government, other institutions, lobby groups, creditors, the public, employees and other special-interest groups. These are levers of major impact on industries all over the world. This sixth force influences the industry's attractiveness via all the existing five forces as well as acting as a separate force (Reinisch, 2003). Austin (1991) argued that the basics of managerial work in developing countries lay in the context in which managers operated and the special challenges they faced. Palvia et al (1990) brought in additional competitive forces in form of government and infrastructure. The mailing industry in Kenya faces statutory rules from the government through the regulator. The regulator monitors all new entrants, ensures there is fair play among the players and evaluates tariff adjustment on basic letter services especially for the public operator.

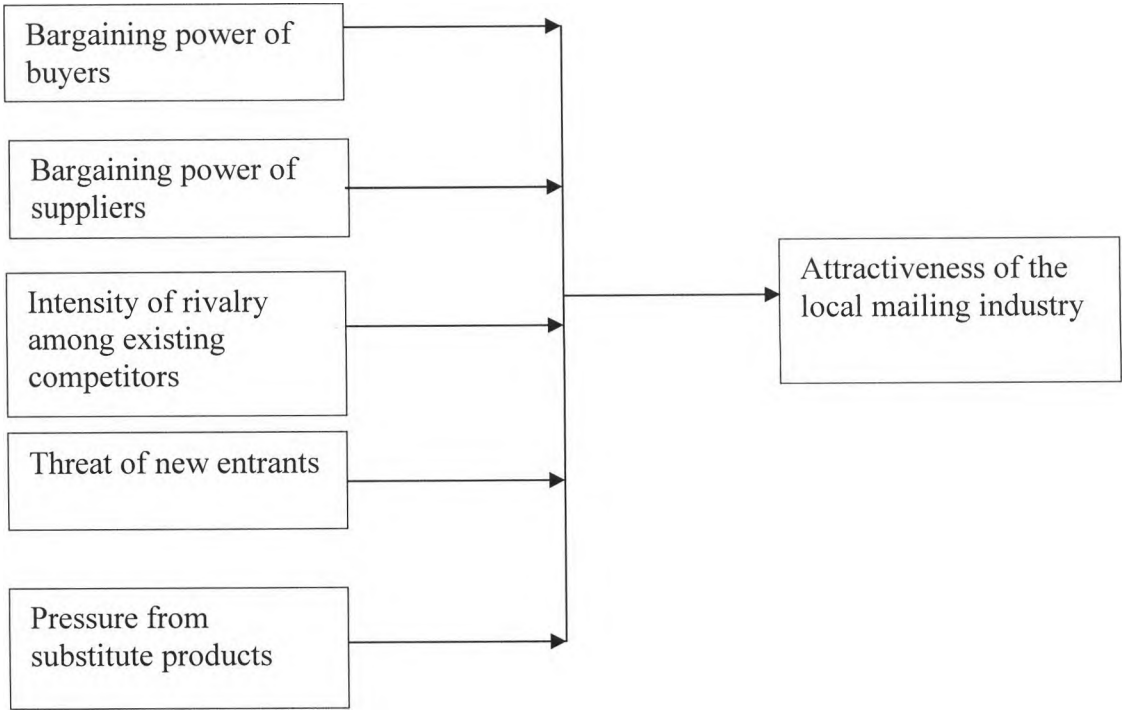
Missing from Porter's five forces is any mention of the public apart from a passing reference of the government. When Porter laid his thinking, public interest tended to be filtered through governments and trade unions. The world has changed with most governments embracing free market systems and the power of trade unions is waning. Through lobby groups, NGOs, activists the public applies pressure on firms on matters of interest such as programs of social responsibility. Aosa (1992) points there is also a special challenge of power play from powerful government individuals. Managers complain of interference and unfair treatment while carrying out their activities.

Most modern managers explicitly account for public interest when they analyze their industry or make their strategic plans. The public however is now expanding its influence over company's financial results and expressing itself as an economic interest not only in social responsibility programs but also to seize earnings in the market place (Carr, 2006). The post has other social responsibility apart from physical distribution of mail. Not only does the customer care about convenience and price but is also concerned that the receiver does not experience any hassle when receiving the sent item.

2.4. Summary of the Conceptual Framework

Henderson (1994) argued that that the major aims of research should be either to relate data to a theory or to generate a theory from data. In order to hold existing and new knowledge, theory should provide a conceptual framework, so that knowledge can be interpreted for empirical application in a comprehensive manner. The conceptual model is based on the following variables: bargaining power of buyers, bargaining power of suppliers, intensity of rivalry among existing competitors, threat of new entrants and pressure from substitute products. These form the independent variables of the study. The dependent variable is the attractiveness of the local mailing industry. Figure 2.2 shows the conceptual model on the relationship between the dependent and the independent variables.

Figure 2: The Conceptual Model



[Independent Variable]

[Dependent Variable]

CHAPTER THREE

3.0. RESEARCH METHODOLOGY

3.1. Research Design

The study applied a descriptive survey research design. Descriptive research includes surveys and fact-finding enquiries of different kinds. The major purpose of descriptive research design is a description of the state of affairs as it exists at present (Kothari, 2003). The design involved primary research methods. Field research involved the collection of primary data. The rationale for using this design is that it explores the existing status of two or more variables at a given time.

3.2. Population

The population of the study comprised of 105 postal cum courier operators according to information from the Communication Commission of Kenya (See Appendix III). A sample of 40% was drawn from the population. The sample was drawn through stratified random sampling. The stratification was based on the operational categories as defined by the Communication Commission of Kenya (See Appendix III). Strata with less than five operators were not subjected to sampling. Table 3.1 presents the sampling frame and the sample size. As a result, a sample of 44 operators was used for the study.

Table 3.1: Sampling frame and sample size

Operational category	Number of operators	Sample percentage	Sample size
Public postal operator	1	100%	1
International inbound operators	10	40%	4
International operators	11	40%	5
Regional operators	5	40%	2
Intra-country operators	54	40%	22
Intra-city operators	23	40%	9
Document exchange operators	1	100%	1
Total	105		44

3.3. Data Collection

Primary data was collected using a structured questionnaire. The questionnaire was structured into two broad sections. The first section captured background information about the firm while the second section captured information on the Porter's five forces model. The second section was further structured into five sub-sections based on the key dependent variables namely: the bargaining power of suppliers, the bargaining power of customers, entry of new players, existence of substitutes and competitive rivalry within the industry. The questionnaire contained both open-ended and closed questions. The questionnaire was distributed by way of drop and pick method. The target respondents comprised of chief executive officers or in their absence business development managers of the respective firms.

3.6 Data analysis method

Before the data was analyzed all the questionnaires were checked to find out whether they were answered adequately. The information was then coded and entered into a spreadsheet and analyzed using descriptive statistics namely frequency tallies and the corresponding percentages. The statistics were generated using Statistical package for Social Sciences (SPSS). The findings are presented using tables and charts.

CHAPTER FOUR

4.0. DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1. Introduction

This chapter presents the findings of the study, analysis of data and presentation of findings. For the purpose of showing the relationship amongst various variables, descriptive statistics such as frequencies and percentages have been used. The study applied primary data that was collected from 29 postal operators. This represented a response rate of 66%. The data formed the basis for the analysis presented in this chapter. The chapter is organized as follows: Section 4.2 presents the demographic characteristics of the sample; and Section 4.3 presents findings on how the Porter's five forces influence the attractiveness of the mailing industry in Kenya.

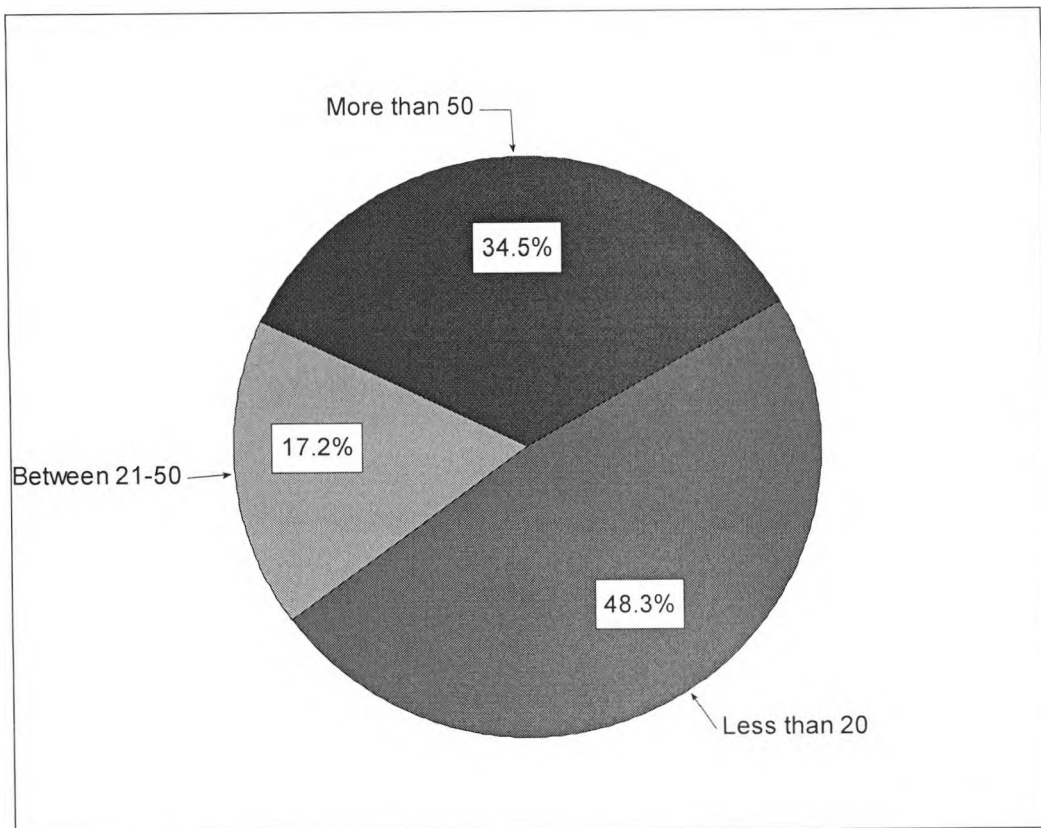
4.2. Profile of Respondent Firms

The findings were gathered from the business development managers of 29 courier/ mailing firms as outlined in the sampling frame. The findings below present the profile of the sample firms.

4.2.1. Number of Employees in the Firm

Figure 1 indicates various categories of staff sizes within the sample firms used for the study. The findings indicate that most firms (48.3%) had less than 20 employees; 17.2% had between 21 and 50 employees; while 34.5% had more than 50 employees.

Figure 3: Number of Employees in Sample Firms (N=29)

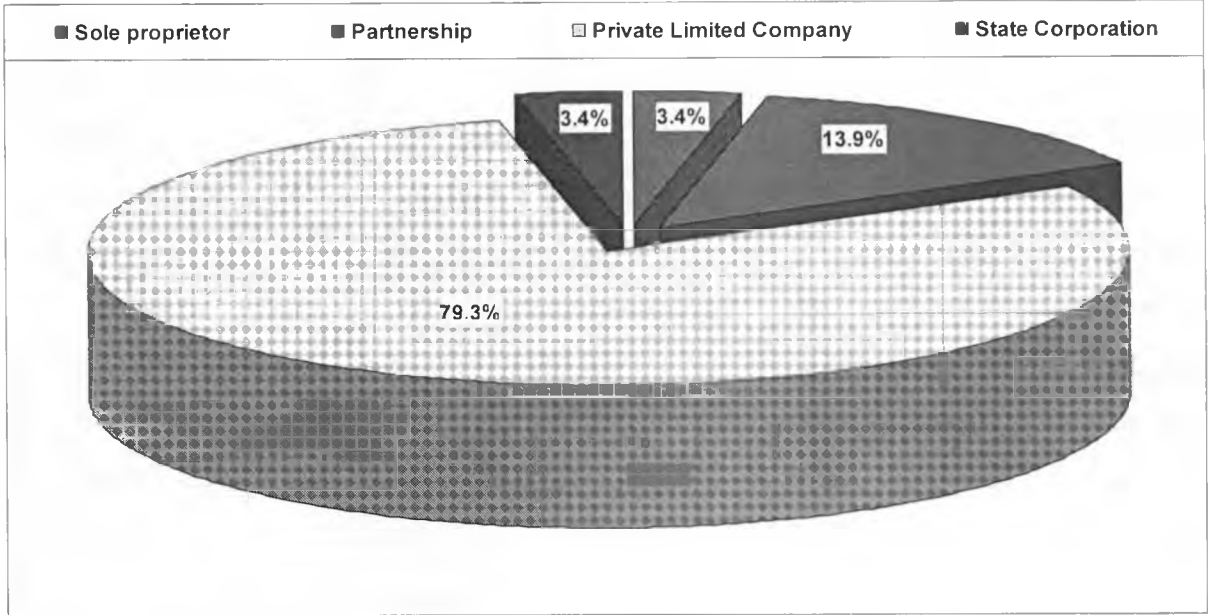


Source: Field Data (2008)

4.2.2. Ownership Structure of Sample Firms

In regard to ownership structure, the findings of Figure 2 indicates that a majority of the sample firms (79.3%) were private limited liability companies; 13.8% were partnerships; 3.4% were sole proprietorships; and one firm (the Postal Corporation of Kenya) was the only state corporation selected in the sample.

Figure 4: Ownership Structure of Sample Firms

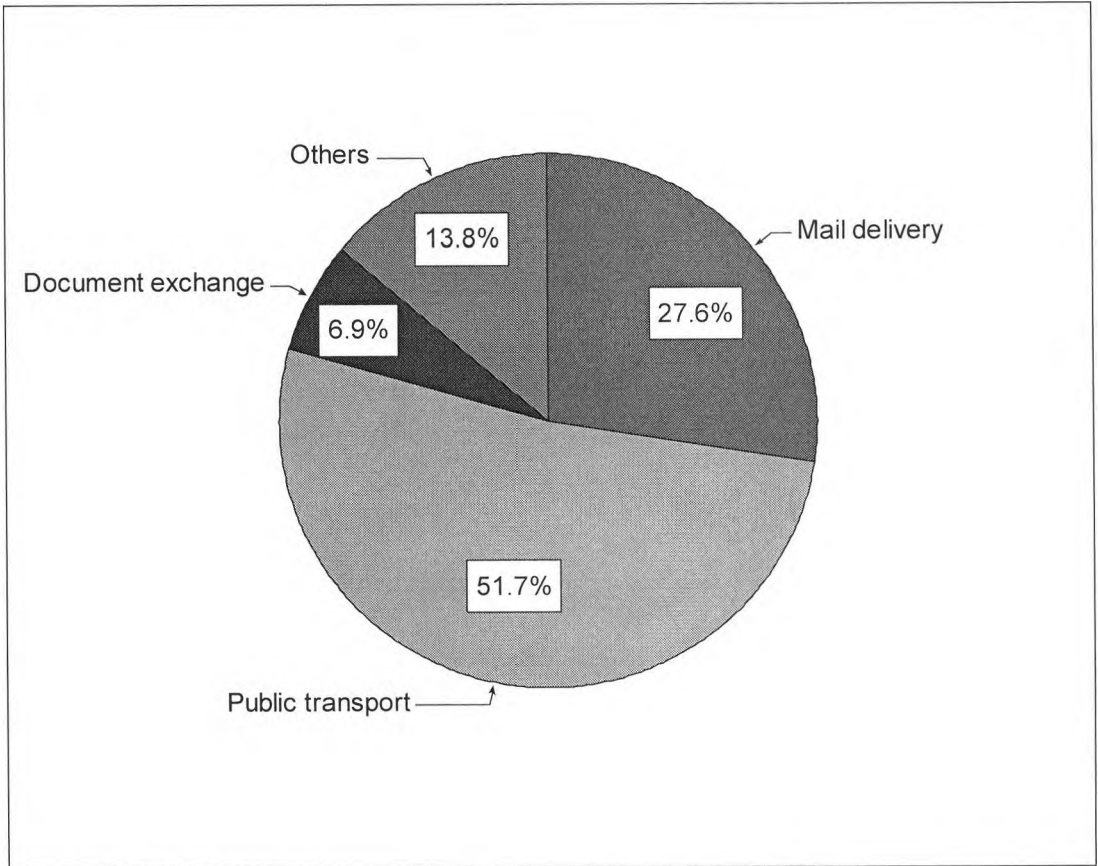


Source: Field Data (2008)

4.2.3. Nature of Core Business of Sample Firms

The findings of Figure 3 indicate that a majority of the sample firms (51.7%) had “public transport” as their core business as opposed to mail delivery which comprised 27.6% of the sample. Two firms (6.9%) reported document exchange as their core business. For the rest of the firms, (13.9%) their core business comprised of activities such as security services, clearing and forwarding agencies, and transport logistics contracting.

Figure 5: Nature of Core Business of the Sample Firms



Source: Field Data (2008)

4.2.4. Supply aspects affecting the Mailing firms

Table 1 presents findings regarding the perceived extent to which suppliers influence performance of firms in the mailing industry in regard to three aspects namely technologies, software, and logistics. The findings indicate that the greatest influence by suppliers lies in technologies (64.3%), and logistics (51.8%). Half of the sample respondents (50%) were of the feeling that the influence exerted through use of software is neither high nor low. This implies that suppliers apply modern technologies and logistical techniques to influence performance of operators in the mailing/courier industry in Kenya.

Table 1: Use of Technologies, software, and logistics by Mailing firms

	Very high		Fairly high		Average		Fairly low		Very low	
	n	%	n	%	n	%	n	%	n	%
Technologies (N=28)	6	21.4%	12	42.9%	7	25.0%	3	10.7%	-	-
Software (N=26)	1	3.8%	9	34.6%	13	50.0%	2	7.8%	1	3.8%
Logistics (N=27)	8	29.6%	6	22.2%	8	29.6%	2	7.5%	3	11.1%

Source: Field Data (2008)

4.2.5. Communication channels used by Mailing firms

Table 2 presents findings on various sources of information and the extent to which they are effective in reaching out to customers in the mailing industry. The findings indicate that a majority of sample operators (62.1%) consider ‘word-of-mouth’ as the most effective way of reaching out to customers within the mailing industry. Other popular (though costly) include the electronic media (41.4%), web-based media, and the cellular technologies (34.5%). The print media was found to be least effective way of reaching out to customers.

Table 2: Means used by Mailing firms to reach out to Customers

Source of Information	n	% of the total
Word of Mouth (N=29)	18	62.1%
Print Media such as Newspapers and magazines (N=29)	7	24.1%
Electronic Media such as radio, TV, and films (N=29)	12	41.4%
Other media e.g. internet, cellular technologies (N=29)	10	34.5%

Source: Field Data (2008)

4.3. Attractiveness of the Mailing Industry

The study’s conceptual model was based on five independent variables namely bargaining power of buyers, bargaining power of suppliers, Intensity of rivalry among existing competitors, threat of new entrants, and pressure from substitute products. The

findings under this section seek to establish how each of the variables influence attractiveness of the mailing/courier industry in Kenya.

4.3.1. Perceived Influence of Suppliers towards Attractiveness of Mailing Industry

Table 3 presents findings regarding the extent to which the sample respondents perceived the influence exerted by suppliers to the mailing industry in regard to various aspects. The findings indicate that according to a majority of the respondents (79.3%), suppliers are becoming significant stakeholders of the sector and playing a crucial role in its restructuring and future evolution. In addition, 77.8% of the respondents were of the opinion that they prefer sticking to specific suppliers because the switching costs from one supplier to another are high. The findings also indicate that a majority of the respondents (78.5%), suppliers in the mailing industry are influential in determination of the quality and price of the final products that are offered to customers. Finally, it is evident that a majority of the sample respondents (88.7%) were of the opinion that large mail or courier operators are able to obtain discounts from suppliers as opposed to small operators.

The findings presented in Table 3 below therefore indicate that suppliers influence the attractiveness of the mailing industry in regard to the following aspects: restructuring and future evolution of the industry; determination of the quality and price of the final products that are offered to customers; and provision of discounts to large mail operators as opposed to small operators. It is also evident that supplier switching costs in the mailing industry are high; hence operators are 'locked-in' to particular suppliers.

Table 3: Perceived influence of suppliers in the mailing industry

	Strongly agree		Fairly agree		No idea		Fairly disagree		Strongly disagree	
	n	%	n	%	n	%	n	%	n	%
Supplier are becoming significant stakeholders of the sector and playing a crucial role in its restructuring and future evolution (N=29)	11	37.9%	12	41.4%	1	3.4%	3	10.3%	2	6.9%
Labor exerts a lot of pressure on our profitability (N=29)	3	10.3%	13	44.8%	3	10.3%	7	24.1%	3	10.3%
We are major customers of our suppliers (N=28)	1	3.6%	7	25.0%	13	46.4%	4	14.3%	3	10.7%
Suppliers have other markets other than the mailing firms (N=28)	3	10.7%	7	25.0%	13	46.4%	4	14.3%	1	3.6%
We prefer sticking to specific suppliers because the switching costs from one supplier to another are high (N=27)	4	14.8%	17	63.0%	-	-	5	18.5%	1	3.7%
The market is dominated by a few large suppliers who dictate prices and volumes supplied (N=27)	1	3.7%	8	29.6%	2	7.4%	13	48.1%	3	11.1%
We source our materials and other inputs from specific suppliers due to lack of substitutes (N=27)	-	-	2	7.4%	1	3.7%	18	66.7%	6	22.2%
We can manufacture some inputs in-house other than buy from suppliers (N=28)	-	-	2	7.1%	-	-	19	67.9%	7	25.0%
Our suppliers are influential in determination of the quality and price of the final products we offer to customers (N=28)	2	7.1%	20	71.4%	3	10.7%	2	7.1%	1	3.6%
Large mail or courier operators are able to obtain discounts from suppliers as opposed to small operators (N=27)	13	48.1%	11	40.7%	1	3.7%	1	3.7%	1	3.7%

Source: Field Data (2008)

The study established that suppliers influence the attractiveness of the mailing industry in various ways and the effect of their bargaining power is high. The greatest influence by suppliers lies in technologies and logistics. This implies that suppliers apply modern

technologies and logistical techniques to influence performance of operators in the mailing/courier industry in Kenya. The study established that the existing mail/courier operators prefer sticking to specific suppliers because the switching costs from one supplier to another are high hence operators are 'locked-in' to particular suppliers (Table 5). Suppliers in the mailing industry are influential in determination of the quality and price of the final products that are offered to customers. The findings indicate that large mail or courier operators are able to obtain discounts from suppliers as opposed to small operators. This implies that suppliers influence the attractiveness of the mailing industry in regard to the following aspects: determination of the quality and price of the final products that are offered to customers; and provision of discounts to large mail operators as opposed to small operators. Suppliers are becoming significant stakeholders of the mailing sector and are playing a crucial role in its restructuring and future evolution. The findings agree with empirical studies (Porter, 1985 and Byars, 1991) that suppliers can exert their bargaining power over participants by threatening to raise prices or reduce the quality. This arises because the supplier group of the Kenyan mail industry is more concentrated than the industry itself, the customer group (mail/courier operators) is not unique for the suppliers, and they have built up switching costs. In addition, the bargaining power of suppliers determines the cost of production and other inputs for mail/courier operators.

4.3.2. Perceived Influence of Customers towards Attractiveness of Mailing Industry

Table 4 presents findings regarding the extent to which the buyers are perceived to influence attractiveness of the mailing industry in Kenya. A majority of the sample respondents (68.9%) were of the opinion that operators in the mailing industry design

products and services for specific consumer target groups. Secondly, the findings indicate that 93.1% of the respondents agreed that operators in the mailing/courier industry consider the concentration of customers in a particular geographical area when expanding their operational networks. However, contrary to the suppliers' ability to influence pricing of products and services in the mailing industry, the findings indicate that a majority of the respondents (69%) were of the opinion that buyers/customers (whether large or small) have no influence on pricing of products and services. The findings finally indicate a split in opinion regarding whether or not the mailing/courier operators experience changes in customers' demands from time to time. The findings presented in Table 6 therefore indicate that the influence of buyers lies in driving product innovativeness amongst players and in their concentration within certain geographical locations.

Table 4: Perceived Influence of Customers in the Mailing Industry

	Strongly agree		Fairly agree		No idea		Fairly disagree		Strongly disagree	
	n	%	n	%	n	%	n	%	n	%
Our products or services are designed for a specific consumer target group (<i>N=29</i>)	7	24.1%	13	44.8%	-	-	6	20.7%	3	10.3%
We experience changes in customers' demands from time to time (<i>N=29</i>)	4	13.8%	9	31.0%	2	6.9%	13	44.8%	1	3.4%
The power of buyers or customers both large or small influences the prices that we charge for mailing services (<i>N=29</i>)	4	13.8%	5	17.2%	-	-	16	55.2%	4	13.8%
We consider the concentration of customers in a particular geographical area when expanding our operational network (<i>N=29</i>)	15	51.7%	12	41.4%	1	3.4%	1	3.4%	-	-

Source: Field Data (2008)

Table 5 presents findings regarding the perceived extent to which buyers influence attractiveness in the mailing industry in regard to various aspects namely costs of investments made, pricing of products and services, provision of value-added services, in-house provision of postal services, and installation of information systems. The findings indicate that a majority of the respondents were of the opinion that the greatest influence by buyers drives the mailing/courier operators: to invest heavily (72.4%); to provide quality services (82.8%); to provide value-added additional services (79.3%); and to establish customer information systems (79.3%). The findings indicate that buyers have very insignificant influence on pricing of products and services and in-house provision of postal services. The findings therefore imply that buyers of mailing/courier services have influence on costs of investments made, provision of value-added services, provision of quality services, and investments in customer information systems.

Table 5: Extent of Customers' Influence based on Various Aspects

	Very high		Fairly high		Average		Fairly low		Very low	
	n	%	n	%	n	%	n	%	n	%
Cost of investments made (N=29)	7	24.1%	14	48.3%	7	24.1%	-	-	1	3.4%
Pricing of products and services (N=29)	2	6.9%	8	27.6%	10	34.5%	5	17.2%	4	13.8%
Quality of services offered (N=29)	8	27.6%	16	55.2%	3	10.3%	1	3.4%	1	3.4%
Provision of additional or value-added services (N=29)	6	20.7%	17	58.6%	5	17.2%	1	3.4%	-	-
In-house provision of postal services (N=29)	2	6.9%	1	3.4%	19	65.5%	3	10.3%	4	13.8%
Well-established customer information systems (N=29)	12	41.4%	11	37.9%	2	6.9%	2	6.9%	2	6.9%

Source: Field Data (2008)

The study establishes that customers influence the attractiveness of the mailing industry in various ways and the effect of their bargaining power is high. The study found out that the buyer power influences the mailing/courier industry in regard to costs of investments

made, provision of value-added services, provision of quality services, and investments in customer information systems. Operators in the mailing industry design products and services targeted to specific consumer groups. The existing operators in the mailing/courier industry also consider the concentration of customers in a particular geographical area when expanding their operational networks. The study however revealed that buyers/customers (whether large or small) have no influence on pricing of products and services. The finding agree with previous empirical studies by Porter (1985), Dagmar, (2001) and Cook (1995) that bargaining power is likely to be high when they buyers buy large volumes; there is a concentration of buyers; the supplying industry comprises a large number of small operators; the supplying industry operates with high fixed costs; the product is undifferentiated and can be replaced by substitutes; switching to an alternative product is relatively simple and is not related to high costs; customers have low margins and are price-sensitive; the customer knows about the production costs of the product; and there is the possibility for the customer integrating backwards. For example, in the Kenyan case, powerful buyers such as state agencies and non-governmental organizations apply their business status to exert pressure on courier and mail operators to lower prices, provide higher quality, and offer additional services at no extra charge.

4.3.3. Perceived Influence of New players towards Attractiveness of Mailing Industry

Table 6 presents findings regarding the factors that can be considered as key drivers to entry of new players in the mailing/courier business industry in Kenya. The factors are arranged in a descending sequence. The findings indicate that the key drivers to entry of

new players include industry growth, access to distribution channels, high profitability in the sector, availability of favorable locations, and minimal regulatory requirements.

Table 6: Key drivers to entry of new players (N=29)

	n	% of the total
Industry growth	26	89.7%
Access to distribution channels	25	86.2%
High profitability in the sector	24	82.8%
Favorable locations	24	82.8%
Minimal regulatory requirements	22	75.9%
Affordable capital outlay	14	48.3%
Low transaction costs	13	44.8%
Low operational costs	13	44.8%
Experience curve	11	37.9%
Utilization of existing assets	8	27.6%
Affordable technological requirements	6	20.7%

Source: Field Data (2008)

Table 7 presents the split of responses regarding the perceived extent to which entry of new players in the mailing/courier business has influenced market dynamics in regard to market share, operational capacity, product differentiation, and pricing of products and services. The findings indicate that the entry of new players in the industry has had the greatest influence in regard to erosion of market share for existing players (62.1%), and constraining operational capacity of existing players (67.9%). The findings indicate further that the entry of new players has had minimal effect in regard to product differentiation by customers and pricing of products and services.

Table 7: Perceived Effect of Entry of New Players on Market Dynamics

	Very high		Fairly high		Average		Fairly low		Very low	
	n	%	n	%	n	%	n	%	n	%
Market share (<i>N=29</i>)	6	20.7%	12	41.4%	10	34.5%	-	-	1	3.4%
Operational capacity (<i>N=28</i>)	-	-	19	67.9%	3	10.7%	5	17.9%	1	3.6%
Product differentiation by customers (<i>N=29</i>)	2	6.9%	2	6.9%	14	48.3%	8	27.6%	3	10.3%
Pricing of your products and services (<i>N=28</i>)	3	10.7%	5	17.9%	9	32.1%	10	35.7%	1	3.6%

Source: Field Data (2008)

The study establishes that the entry of new players has negatively impacted on the attractiveness of the mailing/courier business in Kenya. The findings established that the key drivers to entry of new players include industry growth, access to distribution channels, high profitability in the sector, availability of favorable locations, and minimal regulatory requirements. The entry of new players in the industry has had the greatest influence in regard to erosion of market share for existing players and constraining operational capacity of existing players. Minimal effects were identified in regard to product differentiation by customers and pricing of products and services. The findings concur to findings from previous studies by Barbot (2001) and Porter (1980 & 2003) that entry is mainly conditioned by industry attractiveness, namely by the profits incumbent firms are making, by its growth, and by the existence of barriers to entry thereby eroding their marketing share and constraining their operational capacity.

4.3.4. Perceived Influence of Substitutes towards Attractiveness of Mailing Industry

The findings presented in Table 8 indicate the perceived effects of substitutes in the mailing/courier industry in Kenya. Three quarters of the sample respondents (75.0%) were of the view that substitutes limit the potential returns of the industry by placing a ceiling on the prices that can be profitably charged. Besides, 72.4% of the respondents reported that the office e-mails and faxes have replaced the bulk of letters that courier and mail operators used to send through their service from one organization to the other. This has led to a sharp decline in business volumes. Similarly, a majority of the respondents (79.3%) reported that the introduction of mobile telephony has 'eaten up' the share of mailing or courier operators since the customers opt to transact via their cell phones. The findings however indicate that existence of substitutes has very minimal effect on product or service differentiation amongst consumers. The findings therefore imply that the existing substitutes in the mailing industry have led to a decline in business volumes as well as the potential returns of the industry arising from setting a benchmark for pricing mechanisms within the industry.

Table 8: Perceived effects of existence of substitutes in the mailing industry

	Strongly agree		Fairly agree		No idea		Fairly disagree		Strongly disagree	
	n	%	n	%	n	%	n	%	n	%
Substitutes limit the potential returns of the industry by placing a ceiling on the prices we can profitably charge (<i>N=28</i>)	8	28.6%	13	46.4%	-	-	6	21.4%	1	3.6%
The office e-mails and faxes have replaced the bulk of letters that we used to send through our service from one organization to the other (<i>N=29</i>)	6	20.7%	15	51.7%	5	17.2%	2	6.9%	1	3.4%
The introduction of mobile telephony has eaten the share of mailing or courier business since customers opt to transact via their cell phones (<i>N=29</i>)	9	31.0%	14	48.3%	-	-	5	17.2%	1	3.4%
Substitute products hinder product or service differentiation amongst consumers (<i>N=29</i>)	2	6.9%	9	31.0%	7	24.1%	8	27.6%	3	10.3%

Source: Field Data (2008)

Table 9 presents findings regarding the perceived extent to which customers are influenced by existence of substitute products and services in the mailing/courier industry in Kenya. The findings indicate that a majority of the sample respondents were in agreement to the following aspects: that substitutes are easily available and new ones are emerging (67.9%); that substitutes are attractively priced and have better performance features (55.1%); that sales of substitutes are growing faster than the sales of traditional mail products (82.8%); and that producers of substitutes are more profitable than mailing firms (79.3%). This is occasioned by the ability of substitutes to attract huge business volumes and end users. The findings indicate that there is minimal effect in regard to consumers' brand loyalty and switching costs. It is evident therefore, that substitutes influence consumer behavior due to their ease of availability, consumer-friendly pricing, and growing trends in the industry at large.

Table 9: Extent of Customers' Influence by Substitutes

	Very high		Fairly high		Average		Fairly low		Very low	
	n	%	n	%	n	%	n	%	n	%
Brand loyalty of the customers (N=29)	3	10.3%	9	31.0%	14	48.3%	1	3.4%	2	6.9%
Substitutes are easily available and new ones are emerging (N=29)	5	17.9%	14	50.0%	8	28.6%	-	-	1	3.6%
End users have high switching costs to substitutes (N=29)	1	3.4%	3	10.3%	15	51.7%	9	31.0%	1	3.4%
Substitutes are attractively priced and have better performance features (N=29)	5	17.2%	11	37.9%	9	31.0%	2	6.9%	2	6.9%
Sales of substitutes are growing faster than the sales of traditional mail products (N=29)	12	41.4%	12	41.4%	3	10.3%	1	3.4%	1	3.4%
Producers of the substitutes are more profitable than mailing firms (N=29)	10	34.5%	13	44.8%	4	13.8%	1	3.4%	1	3.4%

Source: Field Data (2008)

The study identifies that existence of substitutes have influenced the attractiveness of the mailing industry in various ways and the effects are adverse. The established that the existing substitutes in the mailing industry have led to a decline in business volumes as well as the potential returns of the industry arising by setting a benchmark for pricing mechanisms within the industry. Fast growth of usage of office e-mails and faxes have replaced the bulk of letters that courier and mail operators used to send through their service from one organization to the other. This has led to a sharp decline in mail volumes. Similarly, introduction of mobile telephony has eroded the share of business of mailing or courier operators since the customers opt to transact via the cellular technology-based interfaces. The findings however indicated that existence of substitutes has very minimal effect on product or service differentiation amongst consumers. The effects of substitutes in the mailing industry in Kenya are further intensified by the fact that they are easily available and new ones are emerging; they are attractively priced and have better performance features; sales of substitutes are growing faster than the sales of

traditional mail products; and that producers of substitutes are more profitable than mailing firms. This is occasioned by the ability of substitutes to attract huge business volumes and end users. The findings concur to empirical findings by Dagmar (2001), Porter (1980) and Cook (1995) that a threat from substitutes exists if there are alternative products with lower prices of better performance parameters for the same purpose, and besides, they could potentially attract a significant proportion of market volume and hence reduce the potential sales volume for existing players.

4.3.5. Perceived Influence of Competitive Rivalry towards Attractiveness of Mailing Industry

Table 10 presents findings regarding the extent to which competitive rivalry in the mailing/courier has affected existing businesses in regard to five aspects namely market share, operational capacity, product differentiation by customers, pricing of products and services, and profitability. The findings indicate that competitive rivalry in the mailing industry had greatest effects to existing businesses in regard to market share (68.9%), operational capacity (65.5%), and profitability (68.9%). The findings indicate that competition within the mailing industry had minimal effect on product differentiation by customers and pricing of products and services.

Table 10: Perceived influence of Competition on Existing Businesses (N=29)

	Very high		Fairly high		Average		Fairly low		Very low	
	n	%	n	%	n	%	n	%	n	%
Market share	5	17.2%	15	51.7%	8	27.6%	-	-	1	3.4%
Operational capacity	1	3.4%	18	62.1%	4	13.8%	5	17.2%	1	3.4%
Product differentiation by customers	2	6.9%	4	13.8%	12	41.4%	7	24.1%	4	13.8%
Pricing of your products and services	2	6.9%	6	20.7%	13	44.8%	8	27.6%	-	-
Profitability	7	24.1%	13	44.8%	8	27.6%	1	3.4%	-	-

Source: Field Data (2008)

The findings presented in Table 11 indicate the extent to which competitive rivalry has hindered growth of existing businesses within the mailing/courier industry in regard to various aspects namely product and service innovation, superior customer service, operational excellence, geographical presence and expansion, competitive pricing, size of competitors, and brand identification and loyalty. The findings indicate that a majority of the sample respondents were of the opinion that competition has hindered the growth of their firms in regard to the following aspects: superior customer service (86.2%); operational excellence (62.0%); and geographical presence and expansion (65.5%). The findings indicate that competitive rivalry had minimal hindrance to growth of businesses in regard to product and service innovation, competitive pricing, size of competitors, and brand identification and loyalty.

Table 11: Perceived role of Competition on Growth of Existing Businesses in the Mailing Industry (N=29)

	Very high		Fairly high		Average		Fairly low		Very low	
	n	%	n	%	n	%	n	%	n	%
Product and service innovation	9	31.0%	3	10.3%	7	24.1%	8	27.6%	2	6.9%
Superior customer service	8	27.6%	17	58.6%	1	3.4%	2	6.9%	1	3.4%
Operational excellence	5	17.2%	13	44.8%	10	34.5%	1	3.4%	-	-
Geographical presence and expansion	10	34.5%	9	31.0%	7	24.1%	2	6.9%	1	3.4%
Competitive pricing	1	3.4%	4	13.8%	12	41.4%	12	41.4%	-	-
Size of competitors	1	3.4%	2	6.9%	8	27.6%	12	41.4%	6	20.7%
Brand identification and loyalty	3	10.3%	7	24.1%	12	41.4%	4	13.8%	3	10.3%

Source: Field Data (2008)

The study establishes that competitive rivalry amongst existing players negatively impacts on attractiveness of the mailing/courier business in Kenya. The findings established that competitive rivalry in the mailing industry had greatest effects to existing businesses in regard to market share, operational capacity, and profitability; with minimal

effect on product differentiation by customers and pricing of products and services. The study findings showed further that competitive rivalry has hindered the growth of existing firms in regard to attaining superior customer service; operational excellence; and geographical presence/expansion. Minimal effects were reported in regard to product and service innovation, competitive pricing, size of competitors, and brand identification and loyalty. Competitive rivalry in the Kenyan mailing industry is driven by industry growth, lack of differentiation, diversity in type of competitors and strategic importance of the business units as perceived by business owners or operators. The findings agree with previous findings by Cook (1995) and Anker (1998) that the intensity of competition tends to increase when an industry is characterized by a number of well-balanced competitors, a slow rate of industry growth, high fixed costs, or a lack of differentiation between products.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Summary

The objective of the study was to establish the extent of attractiveness of the mailing industry in Kenya using Porter's five forces framework. Specifically, the study sought to determine how the attractiveness of the mailing/courier business in Kenya is influenced by bargaining power of suppliers, bargaining power of customers, entry of new players, existence of substitutes, and competitive rivalry within existing industry players.

5.2. Conclusions

Michael Porter postulated that the level of attractiveness in an industry is determined by its underlying economic structure. This study established that the attractiveness of the mailing industry in Kenya is shaped by five basic competitive forces: the threat of new entrances into the industry, the bargaining power of suppliers to the industry, the threat of substitute products or services, the bargaining power of customers or buyers, and the rivalry among existing firms. The supply bargaining power is high within the industry hence the buying industry often faces a high pressure on margins from their suppliers. This relationship to powerful suppliers can potentially reduce strategic options for the mail/courier operators. The bargaining power of customers determines how much customers can impose pressure on margins and volumes. New entrants have the potential to change major determinants of the market environment (e.g. market shares, prices, customer loyalty) at any time. There is always a latent pressure for reaction and adjustment for existing players in this industry. Substitutes have been found to potentially

attract a significant proportion of market volume and hence reduce the potential sales volume for existing players. High competitive pressure results in pressure on prices margins, and hence, on profitability for every single company in the industry.

5.3. Recommendations

This study established that the attractiveness of the mailing industry in Kenya is shaped by five basic competitive forces as per the Porter's Framework. Further research should be conducted to determine some of the competitive strategies applied by the small and medium independent courier operators vis-à-vis those applied by multinationals and the giant Postal Corporation of Kenya (PCK). In addition, further research should be conducted to establish some of the challenges affecting the growth of mailing/courier industry. The findings from such studies will complement the findings of this study hence bring out deeper understanding of the mailing industry from a multi-dimensional perspective.

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Appendix I: Letter of Introduction

**CATHERINE WANJIRU MUCHIRI
UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
NAIROBI**

17 November 2008

Dear Respondent,

REF: LETTER OF INTRODUCTION

I am a Master of Business Administration student at the University of Nairobi. I am carrying out a research study to establish the “**THE APPLICATION OF PORTER’S FIVE FORCES MODEL IN ASSESSING THE ATTRACTIVENESS OF THE MAILING INDUSTRY IN KENYA**”. You have been selected to participate in this study. I would like to assure you that all the information collected will be treated with utmost confidentiality and will only be used for purposes of this study.

Your co-operation and contribution will be highly appreciated.

Thank you in advance.

Yours faithfully,

CATHERINE WANJIRU

SUPERVISOR

Appendix II: Questionnaire for Business Managers

The questionnaire is meant to gather information regarding the application of Porter's five forces model in assessing the attractiveness of the mailing industry in Kenya. Kindly respond by ticking in the boxes provided or by writing a brief statement in the spaces provided.

SECTION A: BACKGROUND INFORMATION

1. Name of the firm _____
2. Which category does the firm fall under?
 - a. Public postal operator
 - b. International in-bound operator
 - c. International operator
 - d. Regional operator
 - e. Intra-country operator
 - f. Intra-city operator
 - g. Document exchange operator
3. What is the ownership structure of the firm?
 - a. Sole proprietor
 - b. Partnership
 - c. Private Limited Company
 - d. State Corporation
 - e. Other (Please specify) _____
4. What is the number of employees in your firm? _____
5. Number of years in operations _____
6. Which are your regions of operations? _____
7. What is the nature of your core business?
 - a. Mail delivery
 - b. Public transport
 - c. Document exchange
 - d. Others (please specify) _____

SECTION B: INFORMATION ON PORTER'S FIVE FORCES MODEL

Part 1: Bargaining Power of Suppliers

8. What is your rating on the importance/significance of suppliers towards the operational performance of operators in the mailing industry in Kenya?

- a. Very High
- b. Fairly high
- c. Average
- d. Fairly low
- e. Very low

9. To what extent do suppliers influence the performance of the firm in the mailing sector in regards to their influence in supplies of the following?

	Very High	Fairly high	Average	Fairly low	Very low
a) Technologies					
b) Software					
c) Logistics					

10. The table below presents various aspects regarding the influence of suppliers in the mailing industry in Kenya. Kindly indicate your rating on the statements by applying the following key. **5 = Strongly Agree** **4 = Fairly Agree**

3 = No Idea **2 = Fairly Disagree** **1 = Strongly Disagree**

	5	4	3	2	1
a) Supplier are becoming significant stakeholders of the sector and playing a crucial role in its restructuring and future evolution.					
b) Labor exerts a lot of pressure on our profitability					
c) We are major customers of our suppliers					
d) Suppliers have other markets other than the mailing firms					
e) We prefer sticking to specific suppliers because the switching costs from one supplier to another are high					
f) The market is dominated by a few large suppliers who dictate prices and volumes supplied					
g) We source our materials and other inputs from specific suppliers due to lack of substitutes (there exists monopoly suppliers)					

h) We can manufacture some inputs in-house other than buy from suppliers					
i) Our suppliers are influential in determination of the quality and price of the final products we offer to customers					
j) Large mail/courier operators are able to obtain discounts from suppliers as opposed to small operators					

Part 2: Bargaining Power of Customers

11. Which of the following sources of information is the **MOST** effective means of reaching out to your costumers?

a. Word-of-Mouth

b. Print Media (Newspapers, magazines etc)

c. Electronic Media (radio, TV, films etc)

d. Others (please specify) _____

12. Kindly indicate your rating on the statements by applying the following key.

5 = Strongly Agree 4 = Fairly Agree 3 = No Idea 2 = Fairly Disagree

1 = Strongly Disagree

	5	4	3	2	1
a) Our products or services are designed for a specific consumer target group					
b) We experience changes in customers' demands from time to time					
c) The power of buyers/customers (large or small) influences the prices that we charge for mailing services					
d) We consider the concentration of customers in a particular geographical area when expanding our operational network					

- g. Low operational costs
- h. Favorable locations
- i. Experience curve
- j. Access to distribution channels
- k. Utilization of existing assets
- l. Others (please specify) _____

Part 4: Existence of Substitutes

16. The table below presents various aspects regarding the influence of substitute in the mailing industry in Kenya. Kindly indicate your rating on the statements by applying the following key. **5 = Strongly Agree 4 = Fairly Agree 3 = No Idea 2 = Fairly Disagree 1 = Strongly Disagree**

	5	4	3	2	1
a) Substitutes limit the potential returns of the industry by placing a ceiling on the prices we can profitably charge.					
b) The office e-mails and faxes have replaced the bulk of letters that we used to send through our service from one organization to the other					
c) The introduction of mobile telephony has eaten the share of mailing/courier business since customers opt to transact via their cell phones					
d) Substitute products hinder product or service differentiation amongst consumers					

17. To what extents are your customers influenced by existence of substitutes in regard to the following aspects?

5 = Very High 4 = Fairly high 3 = Average 2 = Fairly low 1 = Very low

	5	4	3	2	1
a) Brand loyalty of the customers					
b) Substitutes are easily available and new ones are emerging					
c) End users have high switching costs to substitutes i.e. change over, technical help					
d) Substitutes are attractively priced and have better performance features					

e) Sales of substitutes are growing faster than the sales of traditional mail products					
f) Producers of the substitutes are more profitable than mailing firms					

Part 5: Competitive Rivalry in the Industry

18. To what extent has competitive rivalry in the mailing/courier affected your business in regard to the following aspects?

	Very High	Fairly high	Average	Fairly low	Very low
a) Market share					
b) Operational capacity					
c) Product differentiation by customers					
d) Pricing of your products and services					
e) Profitability					

19. To what extent have the competitors hindered the growth of your firm in regard to the following aspects?

5 = Very High
2 = Fairly low

4 = Fairly high
1 = Very low

3 = Average

	5	4	3	2	1
a) Product and service innovation					
b) Superior customer service					
c) Operational excellence					
d) Geographical presence/expansion					
e) Competitive pricing					
f) Size of competitors					
g) Brand identification & loyalty					

20. In what other ways does competitive rivalry influence performance/growth of your firm? (Briefly explain) _____

21. What recommendations would you make in regard to making the mailing industry more attractive?

THANK YOU FOR YOUR RESPONSES

Appendix III: Registered Postal/Courier Operators in Kenya

<i>CATEGORY</i>	<i>TOTAL NO.</i>
<u>Public postal operator</u>	1
1. Postal Corporation of Kenya	
<u>International inbound operators</u>	10
1. B.K.B Couriers	
2. Rising Freight Ltd	
3. Merchaised Cargo Systems Ltd	
4. Freight In Time Ltd	
5. Speedex Logistics Ltd	
6. General Freighters Ltd	
7. Rapat Freight (K) Ltd	
8. Shuttle Express	
9. Tradewinds Express Ltd	
10. Keepsake Express Ltd	
<u>International operators</u>	11
1. DHL World wide Express Ltd	
2. East African Courier Ltd (Fedex)	
3. Skynet World wide Express Ltd	
4. Transami K. Ltd	

<ol style="list-style-type: none"> 5. Air Care Chatterers & Brokers Ltd (TNT) 6. Taiyo Enterprises Ltd 7. Union Express Ltd (UNEX) 8. Quantum Freight & Cargo Ltd 9. One World Courier Ltd 10. Rainbow Logistics Express 11. Express IT Courier 	
<p><u>Regional Operators</u></p> <ol style="list-style-type: none"> 1. Securicor Security Services K Ltd 2. Akamba Public Road Services Ltd 3. Nation Courier Division 4. Scandivania Express (k) Ltd 5. Regional Courier Services Ltd 	<p>5</p>
<p><u>Intra Country Operators</u></p> <ol style="list-style-type: none"> 1. Ganatra Parcel Services Ltd 2. Coast Mail Company 3. Al-Micdad Parcel Services 4. Provincial Parcel Carriers 5. Mololine Services Ltd 6. Frontier Telecommunication 7. The Kenya Railways Corporation 8. N.T.L Parcels Services 9. Crossland Services 10. 2 N.K SACCO Ltd 11. Express Package Services Ltd 12. Nilean Enterprises 13. Crescent Courier Express 	<p>54</p>

14. Fast Flight Express Ltd
15. Rising Star Parcel Services
16. Fargo Courier Ltd
17. Easy Coach Ltd
18. Flight Path Aviation Ltd
19. Business Express Enterprises Ltd
20. Falcon Coach Ltd
21. Travel Budget Express
22. Royal Courier Services
23. Chania Travellers SACCO
24. Kuber Agencies
25. Randa Couches
26. New Planet Express Ltd
27. Mid Tusk Agencies
28. Suncity (K) Ltd
29. Regional Coach Services
30. Ama Services
31. Document Express Courier Ltd
32. Charmason Courier Services
33. Shuttle Bus Ltd
34. Hatari Security Guards Ltd
35. Naekana Route 143 SACCO
36. Bob Morgan Services
37. Rift Valley Luxury Commuter Shuttles
38. Molo Group Services
39. Neno Courier Services
40. Silver Star Parcel Services Ltd
41. Nuclear Investment Ltd
42. Four N.T. Savings and Credit Ltd
43. Roy Parcel Services
44. Kenya Bus Services Ltd
45. Urgent Parcel Services
46. Jihan Freighters Ltd
47. Garissa Parcel Services Ltd
48. Mombasa Liners
49. Busscar Parcel Services Ltd
50. City Link Delivery & General Services
51. Trasnet Freighters Services
52. Nyeri Shuttle Ltd
53. Data Rush Services Ltd
54. Sonic Sprinters

Intra City Operators

- | | |
|--|--|
| <ol style="list-style-type: none">1. Chapex Ltd2. In-Time Couriers services Ltd3. The Dropping Zone Ltd4. Mudoba Express Services Ltd5. Tomic Express Services Ltd6. Mars Secretarial Bureau7. Capital Link Courier Ltd8. Ashbourne & Company Ltd9. Mail Drop Services10. Deltagram Courier Services11. Kinstripe Ltd12. Yes Courier Services13. Sonic Sprinters14. Fimen (k) Ltd15. Planet Express Courier Services16. PSACAM Couriers17. The Messenger Services Investments18. Petty Errands Ltd19. Tymer Express Courier20. Parcella Ltd21. Executive Errands & Delivery Services22. JOJOSMAIL23. Intercity Delivery Services Ltd | |
|--|--|

<u>Document Exchange Operator</u>	1
1. The Dropping Zone Ltd	
TOTAL	105

Source: Communication Commission of Kenya (2008)