A SURVEY OF COMPETITIVE STRATEGIES EMPLOYED
BY SHIPPING COMPANIES IN KENYA

BY
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Fulfilment of the Requirements for the Award of the Degree of
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DECLARATION

This management research project is my original work and has never been presented for the award of a degree in any other university or institution of learning.

Signed----------------- Date-------------------

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

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DEDICATION

To my wife Esther Sidi, My Children Gideon Charo, Erick Disi and Grace Uchi.
ACKNOWLEDGEMENTS

I would like to sincerely thank my wife Esther Sidi, my children Gideon Charo, Erick Disi and Grace Uchi for the love, patience and support they gave me throughout the period I was pursuing the MBA program. I particularly thank my wife Esther for the ideas, and as I was burning the midnight lamp, she was busy praying for me. For my children, sincere thanks for allowing me to do my homework at home.

Sincere thanks to Mr. Jackson Maalu my Supervisor for his guidance and support during preparation of this project and throughout the whole MBA program.

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The invaluable support I received from my fellow MBA classmates should not go unmentioned. I cannot forget Nguma, Rucha, Kahindi, Otieno, Mwaruwa just to mention but a few, for their concern and lively discussions. They really wanted all of us to succeed.

Lastly, I humbly thank god the almighty for making all these things possible and for the gift of life. In him I trust.
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ABSTRACT

The major objectives of the study were to determine the competitive strategies employed by shipping companies in Kenya and the factors which determine their competitiveness. The turbulent environment in which businesses operate demand that firms craft strategies that will enable them gain competitive advantage over other players in the market.

Currently there are 16 shipping companies operating in Kenya based in Mombasa. All the 16 firms formed the population of study. Data for this study was obtained through the use of questionnaires which were dropped and picked after 7 days.

The findings of this study show that shipping companies in Kenya employ competitive strategies of cost leadership, differentiation and focus to different degrees. Cost leadership strategy is the mostly employed amongst the companies. Differentiation strategy mainly revolves around customer service and equipment labelling. Focus strategy is also in use, through foreign customers who have similar nationality with the parent company abroad but have investments locally.

Other strategies which were found to influence competitiveness of the shipping companies are customer care, strategic Information Systems implementation, sound financial management and introduction of strong organization culture that supports the company objectives.
CHAPTER ONE: INTRODUCTION

1.1 Background

Guiltinan and Paul (1994) argued that, organizations are in stiff competition with each other and especially so when they try to sell similar products and services to the same group of customers. Further they assert that, environmental forces largely influence competition within an industry especially those related in technology, economic force, social and cultural values. Specifically, both the identity of competitors in terms of their characteristics and the type of strategic focus they take may change because of the entry of new firms, deregulation, changing economic conditions or changing social cultural values or technology.

Following liberation, the shipping industry in Kenya is experiencing fierce competition between lines. Players have quickly acknowledged the imperative role of a liberalized economic environment which (being more demand driven) leads to higher appreciation of the increased choice affordable to shippers who can no longer be taken for granted. Firms in this (shipping) industry like firms in other sectors of the economy need to devise strategies for effective competition. Only firms capable of formulating and implementing effective competitive strategies will achieve profitability and growth.

1.1.1 Competitive Strategies

Ansoff (1988) defined competitive strategy as the distinctive approach which a firm uses or intends to use to succeed in her market. He further states that formulation of competitive strategies include consideration of Strengths, Weaknesses, Opportunities and
Threats (SWOT). Porter (1998) stated that a competitive strategy is the search for a favourable competitive position in an industry, the fundamental arena in which competition occurs. It aims at establishing a profitable and sustainable position against the forces that determine industry competition. He further argues that competitive strategies not only respond to the environment but also attempts to shape that environment in firms favour in order to gain competitive advantage. Competitive strategies comprise of both offensive and defensive actions and therefore the goal of a firm is to find a position in the industry where she can best defend herself against the competitive forces or can influence them in her favour (Okal, 2006).

Kiringa (2006), stated that, a company’s competitive strategy consists of the business approaches and initiatives it undertakes to attract customers and fulfil their expectations, to withstand competitive pressures and to strengthen its market position. Further he argues that competitive strategies provide a framework for the firm to respond to the various changes within its operating environment. Wheelen and Hunger (1995) asserts that to be successful over time, organization must be in tune with its external environment. There must be a strategic fit between what the environment wants and what the firm has to offer, as well as between what the firm needs and what the environment can provide.

Kiringa (2006) argued that, the core of a company’s competitive strategy consists of its internal and external initiatives to deliver superior value to its customers. It includes offensive and defensive moves to counter the manoeuvring of rival actions to shift resources around to improve the firm’s long term competitive capabilities and market position and tactical efforts to respond to whatever market conditions prevailing at the
moment. He further states that the competitive aim is therefore to do a significantly better job of providing what buyers are looking for, thereby enabling the companies earn a competitive advantage and out-compete rivals in the market. Competitive strategy is the part of business strategy that deals with management’s plan for competing successfully – how to build sustainable competitive advantage, how to outmanoeuvre rivals, how to defend against competitive pressure, and how to strengthen the firm’s market position (Thompson and shickland. 1996).

Porter (1980) pioneered thinking in this field when he proposed that there were three generic strategies by which an organisation could achieve competitive advantage. These were overall cost leadership, differentiation and Focus. Cost leadership or “no frill” strategy combines low price, low perceived product service benefits and focus, or maintain similar perceived product or service benefits to those offered by competitors. Focus strategy seeks to provide perceived product or service benefits justifying a substantial price premium, usually to a selected market niche. Differentiation strategy seeks to provide product or service benefits that are different from those of competitors and widely valued by the customers to achieve competitive advantage.

1.1.2 Shipping Industry in Kenya

The genesis of the shipping industry in Kenya dates back to the early trade with the Arabian Gulf, India and the Far East. Arab Dhowas regularly called the coast of East Africa as early as the thirteenth century. Traders docked at what is currently referred to as the Old Port situated on the eastern side of Mombasa Island (Mayoyo, 2001). Growth of the industry, though, is more closely connected to the development of the port of
Mombasa as we know it today on the western side of the Island (i.e Kilindini and Kipevu). In 1896 a jetty was constructed at Kilindini for the discharging of materials used in the building of the Uganda railway. In 1984 a modern container terminal was commissioned at Kipevu.

The port of Mombasa provides a crucial infrastructure in the rendering of shipping services. Today it is comprised of 13 general cargo and 3 dedicated container berths with an overall quay length of 3044 meters. Other facilities include 2 oil terminals and a dedicated terminal for loading of cement and discharge of coal by a local cement manufacturer (KPA, 2004).

As with the early Dhows the industry has long been (and still is) dominated by foreign interests. All shipping lines and vessels operating in Kenya are foreign owned. The East African Shipping Line was the only major local attempt to enter the industry but it collapsed with the demise of its owners the East African community. More recent attempts to start a national line seem to have floundered with the near dormancy of Kenya National Shipping Line (KNSL) due to fact that Kenya is a net importer and lack of marketing abroad (Chege, 2001).

Chege (2001) further stated that shipping services are classified into two basic categories, tramp and liner trade. Tramps are ships that call to load or discharge a specific, large (mostly homogeneous) cargo invariably on charter party terms. The distinguishing aspect of a tramp vessel is that it does not have to ply a specific route and will usually follow the demand for its tonnage. Liner ships, on the other hand, call specific ports on a regular advertised schedule and itinerary discharging and loading cargo at each of the ports to
call. Marketing of shipping services is more of a concern of liner companies as they operate in a competitive situation (Gorton et al, 1984).

Traditionally Kenyan’s liner shipping industry was dominated by two major groupings called conferences. While one (The East African Conference Lines –EACL) was active in the North-South trade (N.W.C. Europe and U.K to East Africa), the other (The Far East Conference) covered the East-West trade (Far East/Indian sub-continent to E. Africa). A conference is a grouping of shipping lines operating on a particular (defined) sea route or routes within specified geographical limits. The understanding is to provide regular service (and capacity) and to apply uniform (usually published) tariffs (rates) and other co-operation. Competition is limited to efficiency and quality of service as opposed to undercutting on rates (non-price based competition). According to Gorton et al (1984) it really is a form of cartel where liner carries offer their services at fixed rates. To discourage shippers from using non-conference members a loyalty system is often used. This may entail a differed rebate structure or outright agreement for lower rates especially with volume shippers (Goss, 1982; Frankel, 1987; Branch, 1998).

The future of the conference system is threatened by the rapid development of containerization and the subsequent emergence of multi-modalism, which has accelerated the movement away from the port to port operation to the door service involving NVOCCs (Non -Vessel Operating Common Carriers). The situation is aggravated by the development of the sea port hub and spoke system (Branch, 1998) which has redefined sea routes and directions. A situation is envisaged where a few mega-carriers devoid of conference arrangements will dominate the future.
Resulting from globalization of trade, shipping patterns have changed considerably. The interface of East/West routes with North/South routes has meant that direction has not been clearly defined as before. Large, higher capacity vessels are operated on the East/West trades while smaller feeders are deployed in the North/South sectors. The large global carriers are developing a strategy of hub ports and trans-shipment centres in competition with lines operating in some niche markets. Consequently, there has been a trend towards mergers, acquisition and strategic partnerships as lines position themselves to take full advantage of new circumstances (Branch, 1998 in Chege, 2001).

The shipping industry makes a tremendous contribution to the development and is an essential factor of international trade which has become an important contributor to the economic development (Frankel, 1987; Chrzanowski 1987). Inspite of its important role in the economy, shipping is in turmoil due to over capacity, fragmentation and politicization of the industry. As a result of these restrictive practises the shipping industry has remained stagnant and lacks adaptability (Frankel, 1987).

1.2 Statement of the Research Problem

Following liberalization, the shipping industry in Kenya is experiencing fierce competition between lines. Players have quickly acknowledged the imperativeness of a liberalized economic environment which (being more demand driven) leads to higher appreciation of the increased choice affordable to shippers who can no longer be taken for granted. Chege, (2001) argues that the uncontrollable variables such as the economic.
environment, technology, competitors, government regulations, would still have a bearing on the success or failure of individual companies.

Firms in this (shipping) industry like firms in other sectors of the economy need to devise strategies for effective competition. Only firms capable of formulating and implementing effective competitive strategies will achieve profitability and growth. Competitive strategies in shipping industry have largely been un-researched and therefore undocumented, particularly in regard to the local shipping industry in Kenya. Mugambi (2003) did a study on strategic management practices of shipping companies in Kenya. This study did not address competitive strategies in the industry, and further, the industry competitive factors have largely changed. Some of the reasons for this change include the transformation of cargo carriage systems.

Related studies in other industries have been done (e.g. Obado, 2005; Ndubai, 2003; Karanja, 2002; Murage, 2001; Abdullah. 2000; and Kangoro, 1998) but these studies were done on specific manufacturing and service firms. A good example, Obado (2005) researched on the competitive strategies applied by sugar manufacturing firms in Kenya. He found out that indeed sector specific competitive strategies exist. Findings from previous studies may not be generalized to fairly represent another sector that has not been studied. Shipping business involves facilitating of flow of goods and raw materials from one nation to another.

Shipping companies are involved in local competition for exports/exporters and international/ overseas competition for imports. Since most of them are foreign owned, even their strategies are formulated in the mother countries. These strategies are then
implemented in the organizations' subsidiaries located all over the world. In most cases these strategies do not fit on to those varying environments due to the difference in competitive variables. Therefore the varying circumstances and environments as well as the global operations of this industry make it unique and complex, thus called for a separate local study.

1.3 Objective of the study

a) To determine the competitive strategies employed by shipping companies in Kenya.

b) To determine the factors influencing competitiveness of the shipping companies in Kenya.

1.4 Importance of the study

a) To provide the owners and management of the shipping companies with information on the general state of competition in the industry and the strategies other companies are using to compete in the industry.

b) The study aims at adding to the pool of knowledge that already exists on shipping business and the competitive strategies employed by industry players.

c) Provide information to the policy makers such as the ministry of transport, port authority and give a basis on which future planning can be guided.

d) To provide potential investors in shipping industry with information on some of the challenges other players are encountering and therefore prepare adequately
for them. Further, it will provide them with an idea of the competitive strategies they need to build up in order to be successful in the industry.
CHAPTER TWO: LITERATURE REVIEW

2.1 Overview of Strategy and Competitiveness

Thompson and Strickland (2003) perceived strategy as a combination of competitive moves and business approaches that managers employ to satisfy organizational vision and objectives. Whereas goals represent the ends which the firm is seeking to attain, strategy is the means to these ends (Ansoff, 1990). A unique strategy contributes effectively to the competitiveness of business firms. Strategy has emerged since 1950s as a tool for reorienting the organizational thrust. Good strategy can contribute to growth, profitability, market penetration, cost reduction, cutting edge differentiation of products and sustainable competitive advantage of business firms (Prahalad C and Hamel, 1990).

Porter (1980) noted that competitive advantage is the ability of the firm to outperform rivals on the primary performance goal of profitability. The essence of the strategy is relating a company to its environment (Porter, 1985). He argued further that strategy only make sense if the markets to which it relates are known. He further argued that the essence of business is to create competitive advantage that comes in a number of ways such as low-cost production or product differentiation.

Scholars such as Collies et al (1998) identified three elements that collectively lead to competitive advantage that creates value. They called these, the Corporate Strategic Triangle Resources – assets, skills and capabilities which is basically as aspect of Resources Based Strategy; strategic business units and other key segment of the company – structure, systems and processes. Collies and his team argued that these three sides of
the triangle must be aligned to the company’s vision; goals and objectives to produce competitive advantage that would lead to value creation.

Porter (1985) has argued that business strategy is all about competition. He wrote “competition is specially trying to gain competitive advantage over rivals in the market arena”. Competitive strategy is the ability of a firm to meet and beat the performance of its competitor. If a company does not improve its performance overtime, sooner or later, it will lose its competitive advantage and eventually drop out of the market (Porter, 1985). Thus, the Charles Darwin Law of natural selection can be applied to business firms that only those organizations, which best adapt to their environment, are most likely to survive competition.

In his definitive work of competitive strategy (1985), Michael Porter propelled the concept of strategy and competitiveness into the foreground of strategic thought and business planning. The nature and degree of competition in an industry hinge on five forces: the threat of new entrants, the bargaining power of customers, the bargaining power of suppliers, the threat of substitute products or services and the jockeying among current contestants. The essence of strategy is coping with competition and appreciate how Porter’s Five Forces competitive model-shape a form’s business strategy. The purpose of competitive strategy is to establish a profitable and sustainable position against the forces that determine industry competition.

The corporate strategist’s goal is to find a position in the industry where his or her company can best defend itself against these forces or can influence them in its favour. Knowledge of these underlying five competitive forces provides the groundwork for a
strategic agenda of action. They highlight the critical strengths and weaknesses of the company, animate the positioning of the company in its industry, clarify the areas where strategic change may yield the greatest payroll and highlight the places where industry trends promise to hold the greatest significance as either opportunities or threats (Porter 1980).

2.2 Conceptualization of Strategy and Competitiveness

Two schools of thought have emerged on the conceptualization and adoption of competitive strategies. One school of thought has predominantly considered that viable business units can either seek efficiency or differentiation. The more efficiency is sought by management, the less differentiated the firm would be, whereas the more differentiation is sought by management, the less efficient the firm would be (Dess and Davis, 1982, 1984; Hambrick, 1983; Porter, 1980, 1985). Porter, representing this view, has even conceptualized low costs versus differentiation in terms of a continuum, with low costs at one end and differentiation at the other.

According to Porter (1985), “a firm will ultimately reach the point where further cost reduction requires a sacrifice in differentiation.” Within this context, the members of this school of thought have reasoned that the value chain required for the low cost strategy is qualitatively different from the value chain required for the differentiation strategy. The emphasis of the differentiation strategy is on achieving (even at considerable costs) superior quality and image throughout the value chain, whereas the emphasis of the low cost strategy is on the lowering of costs wherever possible. (A firm) either must take the steps necessary to achieve cost leadership … or it must orient itself to … focus or
differentiation and the benefits of optimizing the firm's strategy for a particular target segment (focus) cannot be gained if a firm is simultaneously serving a broad range of segments (cost leadership or differentiation) (1985).

Hambrick (1983) has also theoretically excluded the possibility of firms competing with more than one strategy. He has furthermore proposed that even though the competitive strategies may be found among various industries, not all of them would be found within any one industry setting. Others have suggested that the competitive strategies represent broad types of strategic groups. Consequently, the choice of strategy can be viewed as the choice of which strategic group to compete (Dess and Davis, 1982, 1984; Roth, 1992).

The second school of thought has proposed that the low cost strategy and the differentiation strategy may be simultaneously and profitably employed by an enterprise (Buzzell and Gale, 1987; Buzzell and Wiersema, 1981; Gupta, 1995; Hall, 1983; Hill, 1988; Jones and Butler, 1988; Miller and Friesen, 1986a; Murray, 1988; Phillips et al., 1983; Slocum et al., 1994; White, 1986; Wright, 1987). According to this school of thought, the adoption of the differentiation strategy would entail promoting higher product quality. This would probably involve bearing higher costs across a number of the functional areas in order to support the differentiation strategy. And quality products would presumably channel greater market demand towards the firm.

Greater market demand allows the firm the possibility of also adopting the low cost strategy through the attainment of higher market shares and cumulative volume of production. Viewed in this context, the acceptance of the differentiation strategy would mainly consist of bearing higher costs in a number of functional areas in order to support
differentiation. The adoption of the low cost strategy would primarily consist of achieving lower per unit cost of production through the attainment of economies of scale. Representing this school of thought, Jones and Butler have explained costs in terms of production and transaction. Production costs include those involved in the manufacturing process whereas transaction costs include those related to the “transfer and exchange of goods and services across organizational boundary” (Jones and Butler, 1988, p. 204). These authors have viewed total costs as the addition of production and transaction costs. Implicit in their argument is that higher transaction costs improve product quality which channels more demand to the firm, enabling the firm to enhance its market share and thus achieve economies of scale (lower per unit costs of production). These are similar thoughts which have been also offered by other members of this school of thought (Buzzell and Gale, 1987; Buzzell and Wiersema, 1981; Hall, 1983; Hill, 1988; Miller and Friesen, 1986b; Phillips, et. al., 1983). For instance, Hall (1983) has argued that some leading enterprises tend to combine low-cost production with higher transaction costs to simultaneously achieve low cost and differentiation. “In at least three cases, the leading companies in my sample chose to combine the two approaches (low cost production and high cost transaction or differentiation), and each has had spectacular success.”

Porter (1980, 1985) argues that superior performance can be achieved in a competitive industry through the pursuit of a generic strategy, which he defines as the development of an overall cost leadership, differentiation, or focus approach to industry competition. If a firm does not pursue one of these strategy types, it will be stuck-in-the-middle and will experience lower performance when compared to firms that pursue a generic strategy (Porter, 1980). According to Porter (1985), a business can maximize performance either
by striving to be the low cost producer in an industry or by differentiating its line of products or services from those of other businesses; either of these two approaches can be accompanied by a focus of organizational efforts on a given segment of the market. Further, a business attempting to combine emphases on low costs and differentiation invariably will end up "stuck in the middle" (Porter, 1980), a notion that received considerable early support (Dess and Davis, 1984; Hambrick, 1981, 1982; Hawes and Crittendon, 1984) but was later challenged by a number of studies (Buzzell and Gale, 1987; Buzzell and Wiersema, 1981; Hall, 1983, Hill, 1988; Murray, 1988; Parnell, 1997; Phillips et al., 1983; Proff, 2000; White, 1986; Wright, 1987).

Porter contends that the assumptions associated with low costs and differentiation are incompatible, those in the "combination strategy school" have argued that businesses successfully combining low costs and differentiation may create synergies that overcome any tradeoffs that may be associated with the combination. Proponents of the combination strategy approach based their arguments not only on broad economic relationships but also on anecdotal evidence demonstrating how individual firms have identified such relationships unique to one or a small group of firms in an industry. Following this logic (Bowman and Faulkner 1992; Faulkner and Bowman, 1997) noted the importance of value activity competitive strategies.

Day and Wensley (1988) argue that competitive methods consist of skills and resources that are available for use by firms in a competitive industry. They define superior skills in terms of staff capability, systems, or marketing savvy not possessed by a competitor. A superior resource is defined in terms of physical resources that are available to help strategic implementation. Examples include operating scale, location, comprehensiveness
of a distribution system, brand equity, or manufacturing or processing assets. They conclude that establishing a generic strategy based positional advantage in the marketplace will provide a firm with superior performance. Bharadwaj et al. (1993) suggest that a competitive advantage can be developed from particular resources and capabilities that the firm possesses that are not available to competitors. The transformation of available skills and resources into a strategic position can only take place under conditions that provide a customer benefit, and normally requires the transformation of multiple competitive methods. The ability to implant a cost leadership, differentiation, or focus strategy is dependent on a firm’s ability to develop a specific set of competitive methods. This becomes the basis for the achievement of above average industry performance.

2.3 Porter’s Generic Strategies

A firm’s relative position within its industry determines whether a firm’s profitability is above or below the industry average. (Porter 1980). The fundamental basis of above average profitability in the long run is sustainable competitive advantage. There are two basic types of competitive advantage a firm can possess according to Porter (1985): low cost or differentiation. The two basic types of competitive advantages combined with the scope of activities for which a firm seeks to achieve, lead to three generic strategies for achieving above average performance in an industry: cost leadership, differentiation and focus. The figure shows the two basic strategies to achieve competitive advantage as supported with the argument that every activity in the value chain is potential source of pursuing either cost leadership or differentiation at the same time not all have the same significance (Hax and Nicolas, 1996).
## Competitive advantages

<table>
<thead>
<tr>
<th>Broad target</th>
<th>1. Cost leadership</th>
<th>2. Differentiation</th>
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<tr>
<td>Narrow target</td>
<td>3a) Cost focus</td>
<td>3b) Differentiation focus</td>
</tr>
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### Figure: 2.3.1 the three generic Strategies


#### 2.3.1 Cost Leadership

In cost leadership, a firm sets out to become the low cost producer in its industry for a given level of quality (Thompson and Strickland 1998). The firm sells its products either at average industry prices to earn a profit higher than that of rivals, or below the average industry prices to gain market share. In the event of a price war, the firm can maintain some profitability while the competitor suffers losses. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. A low cost producer must find and exploit all sources of cost advantage. If a firm
can achieve and sustain overall cost leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average.

Each generic strategy has its risks, including the low cost strategy. For example, other firms may be able to lower their costs as well. As technology improves, the competition may be able to leapfrog the production capabilities, thus eliminating the competitive advantage. Additionally, several firms following focus strategy and targeting various narrow markets may be able to achieve an even lower cost within their segments and as a group gain significant market share.

2.3.2 Differentiation Strategy

In a differentiation strategy, a firm seeks to be unique in its industry along some dimension that is widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. Grant (1998) argues that differentiation is not about pursuing uniqueness for the sake of being different, but its about understanding the product or service and the customer. Differentiation therefore extends beyond the characteristics of the product or service to encompass every possible interaction between the firm and its customers. Products differentiation is always a matter of customer perception, but firms can take a variety of actions to influence these perceptions (Barney 1997).

Approaches to differentiation can take many forms; design or brand image, technology features, customer service, dealer network or other dimensions.
As is quoted by Pearce and Robinson (2002), differentiation usually arises from one or more activities in the value chain that creates a unique value important to buyers as mentioned above. Firms that succeed in a differentiation strategy often have the following internal strengths; access to leading scientific research achieved through highly skilled and creative product development team, strong sales team with ability to successfully communicate the perceived strengths of the products, corporate reputation for quality and innovation (Porter 1980).

Thompson and Strickland (2003) argue that differentiation strategies tend to work best in market circumstances whatever there are many ways to differentiate the product or service and many buyers perceive the differences as having value. Firms can differentiate their products by altering or modifying the product features, linking different functions within the firm, introducing the product at the right time, exploring location advantages, mixing products, linking with other firms and reputation. (Porter 1980).

Kitoto (2005) observes that for a company to be successful in using differentiation, it has to study buyer’s needs and behavior carefully to learn what they consider important, with value and what they are willing to pay for it. The risks associated with differentiation strategy include imitation by competitors and changes in customer tastes. Additionally, various firms pursuing focus strategies may be able to achieve even greater differentiation in their market segments.

2.3.3 Focus

The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors
its strategy to serving them to the exclusion of others. The focus strategy has two variants; Cost focus – where a firm seeks a cost advantage in its target segment and Differentiation focus – where a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser’s target segment and other segment in the industry (Porter 1985). The target segments must either have buyers with unusual needs or the production and delivery system that best serves the target segment must differ from that of other industry segments.

Thompson and Strickland (2003) argues that a firm’s strategy based on two variants becomes increasingly attractive as more of the following conditions are met; First the target market niche is big enough to be profitable. second, costly or difficult to multi-segment competitors to put capabilities in place to meet the specialized needs of the target niche and satisfy the expectations of their main stream customers, third, the industry has many different niches and segments, thereby allowing a focuser to pick a competitively attractive niche suited to its resource, strengths and capabilities, and if any other rivals are attempting to specialize in the same target segment a condition that reduces the risk of segment overcrowding. fourth, focuser can compete effectively against challenges based on capabilities and resources it has to serve the target niche and the customer goodwill it may have build up.

Some risks of focus strategies include imitation and changes in target segments. Furthermore, it may be fairly easy for broad-market cost leaders to adopt its products in order to compete directly. Finally, other focusers may be able to carve out sub-segments that they can serve even better.
The three generics strategies are not necessarily compatible with one another. If a firm attempts to achieve an advantage on all fronts, it may achieve no advantage at all. For example, if a firm differentiates itself by supplying very high quality products, it risks undermining that quality if it seeks to become a cost leader. Even if the quality did not suffer, the firm would risk projecting a confusing image. For this reason Porter (1980) argued that to be successful over the long term, a firm must select only one of these three generic strategies.

Newman et al (1982) argues that besides market and supply factors, three other considerations throw light on the ability of the enterprise to put the strategy into action. These are financial strengths, community and government relations and the ability and values of company executives.

It should be noted that Porter (1980) indicates that firms cannot focus solely on a cost leadership or differentiation strategy to the exclusion of other strategies. He contends that cost leaders must devote some resources to differentiation activity, and those that pursue a differentiation strategy cannot do so to the detriment of their cost structure. Prior research has identified hybrid strategies, which are those with simultaneous emphasis on both cost and differentiation competitive methods (Wagner and Digman, 1997). A stuck-in-the-middle position is difficult to identify and prior research may have incorrectly classified hybrid generic strategies and stuck-in-the-middle positions as equivalent. Also, these classifications may have been inconsistently interpreted and applied from study to study (Wagner and Digman, 1997).
Research on generic strategies has identified a tenuous link between an organization's attention to one of the Porter (1980) generic strategy types and performance. Some studies have found support for a single-strategy performance benefit (Hambrick, 1983; Dess and Davis, 1984; Calingo, 1989). Other research has shown that it is possible to pursue a strategy that includes both cost and differentiation competitive methods (Miller and Friesen, 1986a; Kim and Lim, 1988; Robinson and Pearce, 1988; Roberts et al., 1990; Bush and Sinclair, 1992; Miller and Dess, 1993; Wagner and Digman, 1997) although a performance benefit is not always evident. In a service industry, Kumar et al. (1997) found that hospitals follow five generic strategy groups and conclude that a focused cost leadership strategy is the best route to superior performance.

Devlin and Ennew (1997) caution that a differentiation strategy may be difficult to implant in a service industry because services are easily copied and fruitful options for achieving differentiation may be limited due to the simplicity and duplicability of financial service, unless the target market is highly sophisticated and knowledgeable. In a meta analysis of strategy research, Campbell-Hunt (2000) found that Porter's (1980) generic strategy classifications are capable of discriminating between competitive strategy designs in empirical research and called for repetition of prior studies in different industries using identical competitive methods on which a principal component solution can be employed.
2.4 Other Models of Competitive Strategies

Researches have shown that in the face of competition firms adopt various competitive strategies in order to survive in the market. Ansoff (1988) defines competitive strategy as the distinctive approach, which a firm uses or intends to use to succeed in the market. Competitive strategies comprise of both offensive and defensive actions. He argues that formulation of competitive strategies include consideration of four factors; the firm's implementation and broader societal expectations.

Johnson and Scholes (2005) argue that competition can be sustained by organization having capabilities which are valuable to buyers, rare, robust, no substitutable and dynamic. Strategic capabilities can be defined as the adequacy and suitability of the resources and competencies of an organization for it to survive. These entail tangible and intangible resources. Intangible resources are non physical assets such as information, reputation and knowledge that is; intellectual capital, human resources, financial management and physical resources. Threshold capabilities are essential for organizations to be able to compete in a given market. Competences are activities and processes that which an organization deploys its resources.

Rarity is the uniqueness and may depend on who owns the competence and how easily transferable it is, for example, some professional service organization, reputations that is recruiting, training, motivating and rewarding these individuals to ensure that they do not defect to competitors, or culture that attract funders to work with particular organizations, preferred access to customers.
Prahalad and Gray Hamel (1990) coined the word core competencies and argued that these are the source of competitive advantage which enables a firm to introduce an array of new products. According to Prahalad and Hamel, core competitive challenges, adopted by Branded fast food Chains in Nairobi are: huge financial requirements, changing consumer targets and preferences, enhancement of the abilities and skills of the staff, huge marketing costs and competition from unbranded outlets. This basically confers to the views of Newman. Kitoto (2005) also found out that adequate finance was one of the challenges facing investors.

Thompson and Strickland (2003) argues that fitting the organization internal practices to what is needed for strategic success is the most complicated and time consuming part of strategic management. The ability and values on company executives are important in putting strategy into action. Executives run potential opportunities into actual opportunities even for the good of the company, keep costs in line and face anticipated challenges. Executives may be entrenched to the current strategy such that they are unable to change and measure up with environmental changes; this reduces business opportunities for firms. Within the management group therefore, there should be individuals with qualities essentials to the planning, direction and control of the organization strategies.

Phatak (1989) argues that some other competitive challenges include community and government relations. It must be noted that organizations differ in their ability to work with governments. While it is important to be regarded as a good corporate citizen, good community and government relations may lead simply to a permissive situation, but in crisis situations the very right to continue operating may be at stake.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Research Design

To gain an in-depth understanding of the competitive strategies employed by the shipping companies operating in Kenya and the factors influencing its competitiveness, a census was carried out in all the shipping companies in Kenya.

3.2. Study Population

The population in this study was to be all the 17 shipping companies using a list provided by Kenya Ports Authority (2008-2009) handbook. See appendix 1 for the listing of all the shipping companies operating in Kenya. During the study the researcher found out that the management of one shipping company—Dodwell shipping company—had been taken over by Inchcape shipping line. This reduced the size of the population to 16 firms.

All the shipping companies in Kenya are based in Mombasa municipal.

3.3. Data Collection Techniques and Procedures

The primary data for this study was collected using structured questionnaires. The researcher distributed one questionnaire to every member of the population of study. The questionnaires were administered by the chief executive officers who responded on the effects of various variables on their shipping companies. The questionnaire was divided into two sections. The first section, which was structured, was aimed at obtaining information on the firm profile, whereas the second section which included both open and
closed ended questions was to help the researcher to gather data about competitive strategies and factors influencing competitiveness of the shipping companies in Kenya.

3.4 Data Analysis and Presentation

Before analysis commenced, the questionnaire was checked for completeness, entries checked for consistency and coding done. The data collected was both qualitative and quantitative and to be objective, systematic and free from any selection perception that could dilute reliability and validity. Qualitative analysis as well as descriptive statistics was used to analyse the data.
CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter is divided into four parts. Part one gives a description of the shipping companies' profile. Under company profile the respondents were requested to indicate when their companies started operating in Kenya, number of employees, branch network, ownership structure and the services they offer. The other parts present the findings of the Porters generic competitive strategies as they are employed by the shipping companies in Kenya. These are Cost Leadership, Differentiation and Focus strategies.

A total of 16 questionnaires were distributed out of which only 10 were completed and analyzed. By the time of distributing the questionnaires, the management of one shipping company- Dodwell shipping agency had been taken over by Inchcape shipping lines, reducing the population to 16 firms. This study, therefore, achieved a response rate of 62.5% with 10 out of the targeted 16 shipping companies in Kenya. In part A of the study questionnaire, respondents were asked general information about their firms. The results are given below.

4.2 Firms Profile

Data in part A of the questionnaire were analyzed using frequency distributions and percentages to determine the profile of the responding shipping lines. Respondents were asked to indicate when the shipping lines started operation in Kenya and the results were as summarized in table 4.2.1.
### Table 4.2.1 Year started operation in Kenya.

<table>
<thead>
<tr>
<th>Year of operation</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 10</td>
<td>2</td>
<td>20%</td>
</tr>
<tr>
<td>Between 10-20</td>
<td>2</td>
<td>20%</td>
</tr>
<tr>
<td>Above 20</td>
<td>3</td>
<td>30%</td>
</tr>
<tr>
<td>No response</td>
<td>3</td>
<td>30%</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>100%</td>
</tr>
</tbody>
</table>

According to the respondents, 20% of the surveyed shipping lines were started in Kenya less than 10 years ago while 20% were started between 10-20 years ago and 30% were started over 20 years ago. 30% of them did not respond to this question.

The table below gives a summary of the number of employees within the respective respondents firms.

### Table 4.2.2 Number of employees in the shipping lines.

<table>
<thead>
<tr>
<th>Number of employees</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 20</td>
<td>2</td>
<td>20%</td>
</tr>
<tr>
<td>Between 20-50</td>
<td>6</td>
<td>60%</td>
</tr>
<tr>
<td>Above 50</td>
<td>3</td>
<td>30%</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>100%</td>
</tr>
</tbody>
</table>
The results of this study show that 20% of the surveyed shipping lines had below 20 employees, 60% had between 20 and 50 while 30% had above 50 employees. The respondents were asked to indicate the number of branches their shipping lines have in Kenya. All the respondents (100%) indicated that they have less than 5 branches in Kenya and are located mainly in the urban cities of Mombasa and Nairobi.

Respondents were also asked to indicate the ownership structure of the shipping lines in Kenya. The results are as summarized in table 4.2.4.

Table 4.2.3 Ownership structure of shipping lines

<table>
<thead>
<tr>
<th>Ownership structure</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Owned</td>
<td>5</td>
<td>50%</td>
</tr>
<tr>
<td>Local Owned</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Foreign and Local Owned</td>
<td>5</td>
<td>50%</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>100%</td>
</tr>
</tbody>
</table>

The results of this study show that 50% of the surveyed shipping lines are purely foreign owned while 50% having a mixture of local and foreign ownership. With the foreign ownership, most of them complained of fluctuation in exchange rate and government polices as their main problems in operating in Kenya. All the surveyed shipping lines offer shipping services as their core activity in Kenya with 30% offering additional forwarding services.
4.3 Competitive Strategies employed by Shipping Companies in Kenya

The first objective of this study was to find out the competitive strategies employed by shipping companies operating in Kenya. This section gives a summary of the respondents’ ratings of the extent to which they use a given variable of a competitive strategy. The results presented in this section provide answers to the first objective of the study. For every variable of a strategy that has been rated, the results are presented as the percentage of respondents that indicated they used that variable. A higher percentage indicates greater use of a given variable of a competitive strategy in the industry.

4.3.1 Cost Leadership Strategy

Table 4.3.1(a) and Figure 4.3.1(a) gives a summary of how shipping customers demand for price discounts.

<table>
<thead>
<tr>
<th>Demand</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rarely</td>
<td>10%</td>
</tr>
<tr>
<td>Often</td>
<td>60%</td>
</tr>
<tr>
<td>Very often</td>
<td>30%</td>
</tr>
<tr>
<td>Do not know</td>
<td>0%</td>
</tr>
</tbody>
</table>
The above results show that to a greater extent, customers demand for price discounts. This shows that more than 60% of the customers often demand for price discount while 10% of the respondents indicated that rarely did their customers demand for price discounts.

Table 4.3.2 (b) and Figure 4.3.1(b) below gives a summary of the extent to which the surveyed shipping companies offer price discounts as a way of attracting customers.
Table 4.3.1(b) Discount Allowance

<table>
<thead>
<tr>
<th>Discount Allowance</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rarely</td>
<td>0%</td>
</tr>
<tr>
<td>Often</td>
<td>50%</td>
</tr>
<tr>
<td>Very often</td>
<td>50%</td>
</tr>
<tr>
<td>Do not know</td>
<td>0%</td>
</tr>
</tbody>
</table>

Figure 4.3.1(b) Discount Allowance

50% of the firms involved in this study offer price discounts to their customers very often, whereas an equally large number indicated they do it just often. This indicated that all the firms (100%) are involved in price cuts for their customers.
The respondents were asked to indicate the role played by low price in attracting and retaining customers. The results of this study are summarized in table 4.3.1(c) figure 4.3.1(c).

Table 4.3.1(c) Role of low Price

<table>
<thead>
<tr>
<th>Role of low Price</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very important</td>
<td>10%</td>
</tr>
<tr>
<td>fairly important</td>
<td>60%</td>
</tr>
<tr>
<td>Important</td>
<td>10%</td>
</tr>
<tr>
<td>Not important</td>
<td>20%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>0%</td>
</tr>
</tbody>
</table>

Figure 4.3.1(c) Role of low Price
The results of this study show that 70% percent indicated low pricing of their services is crucial to the winning and retention of the customers, whereas only 20% of the surveyed shipping companies perceive low prices as not important for attraction and retention of customers. 10% said it is just important.

This study therefore shows that low prices of shipping services are perceived to play a role in attracting and retaining customers.

Table 4.3.1(d) and figure 4.3.1(d) below summarizes respondents’ indication of how customers perceive their prices of services as compared to other market players.

<table>
<thead>
<tr>
<th>Customer Perception of Prices of Services</th>
<th>Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher than competition</td>
<td>3</td>
<td>30%</td>
</tr>
<tr>
<td>Similar to competition</td>
<td>7</td>
<td>70%</td>
</tr>
<tr>
<td>Lower than competition</td>
<td>0</td>
<td>0%</td>
</tr>
</tbody>
</table>
The above results show that 30% of the respondents perceive their prices as higher than competition while 70% perceive their prices as similar to competitors. Reasons given for consideration that prices are similar are that the market competition is very stiff and prices can easily be compared due to the small size of the market.

Table 4.3.1(e) and figure 4.3.1(e) summarizes respondents' ratings of the impact of market forces to the success of their firms.
The results of this study show that 40% of the surveyed shipping companies perceive government policies as important on the success of their firms. Customers were perceived as key to the success of the surveyed firms by 70%, while 40% of the firms' managers perceive substitute services to have an impact on the success of their...
companies. Finally 50% of the respondents perceive both existing and new competitors impact on their business success.

Table 4.3.1(f) and figure 4.3.1(f) below gives a summary of how the surveyed shipping companies indicated as measures aimed at improving sales

Table 4.3.1 (f) Measures for improving sales

<table>
<thead>
<tr>
<th></th>
<th>1&amp;2</th>
<th>3</th>
<th>4&amp;5</th>
<th>% (&gt;4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seeking corporate customer</td>
<td>2</td>
<td>0</td>
<td>8</td>
<td>80%</td>
</tr>
<tr>
<td>Low prices</td>
<td>3</td>
<td>6</td>
<td>1</td>
<td>10%</td>
</tr>
<tr>
<td>Promotions</td>
<td>2</td>
<td>2</td>
<td>6</td>
<td>60%</td>
</tr>
</tbody>
</table>

Figure 4.3.1 (f) Measures for improving sales

Measures for Improving Sales

Promotions
Low prices
Seeking corporate customer

Percentage(%)
The result of this study show that 60% of the respondents indicated that promotions is the measure, 80 % stated its seeking after corporate customers whereas 10 % indicated it is through low pricing.

4.3.2 Differentiation Strategy

Most of the respondents were in agreement that shipping services are largely the same. However when the respondents were asked to rate factors which contributes to making the shipping firms unique, the following differences emerged as summarized below in table 4.3.2(a) and figure 4.3.2 (a)

**Table 4.3.2 (a) firm's uniqueness**

<table>
<thead>
<tr>
<th></th>
<th>1&amp;2</th>
<th>3</th>
<th>4&amp;5</th>
<th>% (&gt;4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ship Labelling</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>40%</td>
</tr>
<tr>
<td>Equipments Labelling</td>
<td>2</td>
<td>0</td>
<td>8</td>
<td>80%</td>
</tr>
<tr>
<td>Letter heads on printed materials</td>
<td>1</td>
<td>1</td>
<td>7</td>
<td>70%</td>
</tr>
<tr>
<td>Sponsorships e.g. Sports</td>
<td>3</td>
<td>6</td>
<td>1</td>
<td>10%</td>
</tr>
</tbody>
</table>
The results of this study indicate that 80% of the respondents rated equipment labelling as crucial to creating unique image of the company. 70% pointed out that it is the letterheads and printed materials. 40% of the respondents showed that it is the ship labelling which creates a unique image while 10% specified that it is sponsorship that creates distinctive image.

Since all equipments are standardized worldwide, labelling alone, letterheads and printed material does not create unique image that gives value to the customer. Pursuing these strategies only does not create a competitive advantage as any company can easily imitate what others are doing.

Table 4.3.2(b) and figure 4.3.2(b) gives a summary of the extent to which the surveyed shipping companies use selected action plans to beat competition.
Table 4.3.2 (b) Action plans to beat competition

<table>
<thead>
<tr>
<th>Action plans to beat competition</th>
<th>1&amp;2</th>
<th>3</th>
<th>4&amp;5</th>
<th>% (&lt;=2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offering services not offered by competitors</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>50%</td>
</tr>
<tr>
<td>Offering high quality services</td>
<td>6</td>
<td>4</td>
<td></td>
<td>60%</td>
</tr>
<tr>
<td>Offering better terms services</td>
<td>5</td>
<td>2</td>
<td>3</td>
<td>50%</td>
</tr>
<tr>
<td>Providing a longer repayment period for credit services</td>
<td>2</td>
<td>2</td>
<td>6</td>
<td>20%</td>
</tr>
<tr>
<td>Offering a lower minimum deposit for lease of equipments e.g. Containers</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>30%</td>
</tr>
</tbody>
</table>

Figure 4.3.2 (b) Action plans to beat competition
The results summarized in figure 4.3.2(b) above show that 60% of the surveyed shipping companies indicated they have been providing longer repayment period for credit services, while 40% indicated they offer high quality services and an equal number offer lower minimum deposit for lease of equipments. 30% stated they offer better terms of services. Only 20% offer services not offered by competition.

Aspects of differentiation can be seen from the ways of serving the customers. Longer repayment period of credit services, quality service and better terms of service are some of the factors which differentiate the shipping companies. Two shipping lines indicated that their voyage time is shorter than other lines hence being different. Since all these aspects can easily be imitated and/or replicated, they cease to be competitive.

4.3.3 Focus Strategy

Most of the respondents were in agreement that they have certain customers who purely rely on their services. Findings from figure 4.2.4 above regarding ownership of the shipping companies indicate that almost all are foreign owned. Due to this fact, investors from their mother countries who have business establishments locally rely on them to import raw materials. Some indicated that, they offer better service, shorter voyage time and faster documentation as a way of retaining the loyalty of these customers.

Respondents agreed that they are trying to identify and capture Global Customers who exist in the market. These kinds of customers import raw materials, process them and export finished products to foreign markets. A good example in Kenya are the
Tea exporters who import Tea in large quantities from Central Africa, blend it with Kenyan Tea and export the blended Tea to Asia and European markets. These customers according to some respondents are being sourced through personalized contacts, vigorous marketing and creation of local websites apart from the international website to advertise their services.

Table 4.3.3 and figure 4.3.3 below summarizes the ratings of factors influencing competitiveness of the shipping companies.

<table>
<thead>
<tr>
<th></th>
<th>1&amp;2</th>
<th>3</th>
<th>4&amp;5</th>
<th>% (&gt;4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Location</td>
<td>2</td>
<td>3</td>
<td>5</td>
<td>50%</td>
</tr>
<tr>
<td>Customer Care</td>
<td></td>
<td>10</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Staff Skills</td>
<td></td>
<td>10</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Information systems</td>
<td></td>
<td>1</td>
<td>9</td>
<td>90%</td>
</tr>
<tr>
<td>Company Reputation</td>
<td></td>
<td>10</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Organizational Culture</td>
<td>2</td>
<td>1</td>
<td>7</td>
<td>70%</td>
</tr>
<tr>
<td>Financial Management</td>
<td>2</td>
<td>8</td>
<td>80%</td>
<td></td>
</tr>
</tbody>
</table>
The result of this study as shown in table 4.3.3 and figure 4.3.3 above indicates that 100% of the respondents agree that customer care, staff skills and company reputation are major factors influencing competitiveness. 90% responded that it is information systems, 80% said financial management, 70% indicated organization culture and 50% showed office location as other factors influencing competitiveness. From these findings shipping lines use customer care, staff skills and company reputation as strategies to gain competitive advantage.
4.4 Discussion of findings

The study found that to a greater extent, customers demand for price discounts with more than 60% of the customers often demanding for price discounts while 10% of rarely did their customers demand for price discounts. This shows that the bargaining power of the customers in the industry is very high.

After analyzing the responses in regard to perception of customers to low prices. 70% percent indicated low pricing of their services is crucial to the winning and retention of the customers, whereas only 20% of the surveyed shipping companies perceive low prices as not important for attracting and retaining customers. The results therefore indicate that low prices of shipping services are perceived to play a role in attracting and retaining customers. This low pricing strategy loss is compensated through winning of corporate customers with large volumes.

In pursuance of the strategy, the industry perceives customers as key to the success of their organizations with 70% of surveyed firms affirming so. 40% of the firms' perceive substitute services to have an impact on the success of their companies while 50% of the respondents perceive both existing and new competitors impact on their business success.

The results of this study touching on differentiation indicate that 80% of the respondents rated equipment labelling as crucial to creating unique image of the company. 70% pointed out that it is the letterheads and printed materials. 40% of the
respondents showed that it is the ship labelling which creates a unique image while 10% specified that it is sponsorship that creates distinctive image. Although many respondents indicated that equipment labelling is the most important factor in creating unique image of their firms, it is important to note that all equipments in shipping business are standardized worldwide and therefore labelling alone does not create unique image that gives value to the customer. Pursuing these strategies only may not necessarily create a competitive advantage as any company can easily imitate what others are doing. However shipping companies pursue other strategies such as longer credit offerings and lower minimum deposits for services such as hiring and leasing of containers.

Aspects of differentiation can also be seen from the way the firms serve their customers. Many shipping firms have quality service charters for better terms of service for both employees and customers. Two shipping lines indicated that their voyage time is shorter than other lines hence being different. Since all these aspects can easily be imitated and/or replicated, they cease to be competitive.

Findings from the study show that most of the shipping companies have some customers who purely rely on their services. Investors from their mother countries who have business establishments locally rely on them to import raw materials. They offer them better service arrangements including faster documentation as a way of retaining their loyalty.
All the industry players are always trying to identify and capture new and existing global customers in the market. This is where the focus and low cost strategies are seriously employed resulting to pricing battles in the industry. These kinds of customers import raw materials, process them and export finished products to foreign markets. These customers according to the industry players are usually sourced through personalized contacts, vigorous marketing and creation of local websites apart from the international website to advertise their services.

In regard to other factors contributing to competitiveness, the study established that customer care, staff skills and company reputation are major factors influencing competitiveness other than low cost leadership, differentiation and focus strategies. Other strategies include; strategic Information Systems implementation, sound financial management and introduction of strong organization culture that supports the company objectives. Some felt that office location could as well contribute to competitiveness.
5.1 Summary

The aim of this study was to establish the competitive strategies employed by shipping companies operating in Kenya and the factors influencing their competitiveness. This chapter contains a summary of the results of the study.

Based on the findings of this study 8 out of the 10 surveyed shipping companies have been operating in Kenya for more than 10 years while 2 have been operating here for less than 10 years. In terms of size, the surveyed companies are generally small given the number of employees each has. Through this study it has been established that most of the shipping lines are foreign owned and those seen to have local ownership have a considerable foreign ownership.

With the foreign ownership, most of them complained of fluctuation in exchange rate and government polices as their main problems in operating in Kenya. All the surveyed shipping lines offer shipping services as their core activity in Kenya with 30% offering additional forwarding services.

Overall, all the players in the industry regarded competitive strategies as being important in order to survive in the market, maximise market share, differentiate their services and also for the purpose of market growth. To a larger extent, as earlier discussed in chapter four, strategies pursued by the shipping companies in Kenya
were identified as being mostly consistent with cost leadership strategy. 70% of the players indicated that low prices are key to retention of customers.

The study also revealed that shipping services offered by the players are fundamentally the same and therefore the greatest challenge is differentiating their services. Although this is true, there is an attempt by industry players to uniquely present their services with 80% of the players stating that equipment labelling crucial to creating unique image of their firms. Pursuing differentiation strategies only may not necessarily create a competitive advantage as any company can easily imitate what others are doing. However shipping companies pursue other strategies such as longer credit offerings and lower minimum deposits for services such as hiring and leasing of containers.

Shipping companies have some customers who purely rely on their services such as investors who have business establishments locally utilising their shipping services on regular basis. A good example is the companies involved in manufacturing locally using imported raw materials. They offer them better service arrangements including faster documentation as a way of retaining their loyalty. All the industry players are always trying to identify and capture new and existing global customers in the market. This is where the focus and low cost strategies are seriously employed resulting to pricing battles in the industry.

In regard to other factors contributing to competitiveness, the study established that customer care, staff skills and company reputation are major factors influencing
competitiveness other than low cost leadership, differentiation and focus strategies. Other strategies include; strategic Information Systems implementation, sound financial management and introduction of strong organization culture that supports the company objectives. Some felt that office location could as well contribute to competitiveness.

5.2 Conclusion

The overall findings of this study show that shipping companies in Kenya employ competitive strategies of cost leadership, differentiation and focus to different degrees. Cost leadership strategy is the mostly employed amongst the companies. Differentiation strategy mainly revolves around customer service and equipment labelling. Focus strategy is also in use, through foreign customers who have similar nationality with the parent company abroad but have investments locally.

Other strategies which were found to influence competitiveness of the shipping companies are customer care, strategic Information Systems implementation, sound financial management and introduction of strong organization culture that supports the company objectives.
5.3 Limitations of the Study

The study faced quite a number of constraints although the study scope was generally small; the study could have yielded even better results if more time was available. Some of the executives in the shipping companies are foreigners who could not be accessed since they were out of the country and those available were very busy.

Due to the nature of shipping business, it is highly sensitive and therefore most of the respondents were uncomfortable to divulge all the information regarding their competition in the industry. Most of the shipping firms’ strategies are formulated in their mother countries with the field offices only left to implement. Most of the local managers were therefore not very conversant with their firms’ competitive strategies, yet they were the ones to fill the questionnaires.

5.4 Recommendation for Further Research

Most of the shipping firms operating in Kenya are foreign based and thus their strategies are also foreign formulated. Due to the uniqueness of the Kenyan operating environment a study can be conducted to determine the extent to which foreign formulated strategy fit in the local environment. Also a study can be conducted to determine industry rivalry amongst the players in the shipping industry.
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Kenya Ports Authority (2008-2009) handbook


APPENDICES

Appendix I: List of Shipping Firms

1. Inchcape Shipping Lines, Agents of
   - Mitsui OSK Lines
   - Conti Lines
   - Rostock Harrison lines
   - Ellerman Lines (Andrew Weir Shipping Limited)
   - Transmar Shipping Company
   - Cunard Ellerman Lines

2. Sharaf Shipping Company, Agents of:
   - Ignazio Messina and Company

3. Ocean Freight (E.A) Limited, Agents of
   - Mediterranean Shipping Company

4. GAC-Seaforth Shipping, Agents of:
   - Da I- Deuetche Africa - Linien

5. Dodwell, Agents of
   - CMA CGM

6. African Liner Agencies Limited, Agents of
   - Global Container Lines (G.C.L)

7. PIL (K) Ltd, Agents of:
   - PIL (Pacific International Lines)

8. WEC Lines (Kenya) Limited, Agents of: W.E.C Lines
9. Motaku Shipping Agencies Ltd, Agents of
   • Metis Overseas Lines

10. Diamond Shipping Services Ltd, Agents of:
   • Eukor Car Carriers
   • Emirates Shipping lines.
   • Ethiopian Shipping Lines
   • APL (American President Lines)

11. Kenya National Shipping Lines, Agents of
    • Kenya National Shipping Lines

12. East African Commercials Shipping, Agents of
    • H. Stinnes Linien (G.M.B.H)
    • NYK Line (Nippon Yusen Kaisha)

13. Maersk Kenya Limited, Agents of:
    • Maersk Sealand
    • Safmarine

14. Delmas (K) Limited, Agents of:
    • Delmas

15. Sturrock Shipping Kenya Limited

16. Star East Africa, Agents of:
    • Laurel Navigation Incorporated

17. Spanfreight Shipping Limited

Appendix II: Questionnaires & Interview Guidelines

PART A: COMPANY PROFILE

1. In which year did your organization start operating in Kenya?

2. How many employees do you have currently?
   - [ ] Below 20
   - [ ] Between 20 to 50
   - [ ] above 50

3. How many branches do you have?
   - [ ] Below 5
   - [ ] Between 5 to 10
   - [ ] above 10

4. Please indicate the location of the branches of your company.

<table>
<thead>
<tr>
<th>Branch</th>
<th>location</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
</tr>
</tbody>
</table>

5. How would you describe the ownership of your organization?
   - [ ] Foreign owned
   - [ ] Locally owned
   - [ ] Both locally and foreign
5(b) If foreign, what problems do you encounter while operating in Kenya?

__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________

6 What services does your company provide

1. _______________________________________

2. ________________________

3. ________________________

4. _________________

PART B:

(I.) COST LEADERSHIP STRATEGIES

7. How often do your customers demand for price discounts or costs?

☐ Very often ☐ Often

☐ Rarely ☐ Do not know

8. How often does your company give price discounts to customers

☐ Very often ☐ Often

☐ Rarely ☐ Do not know
9. How seriously and aggressively do you think they are when demanding for the price cuts?

- [ ] Very serious
- [ ] fairly serious
- [ ] Do not know
- [ ] serious

10. What importance do you think lower price plays in attracting and keeping customers?

- [ ] Very important
- [ ] fairly important
- [ ] Important
- [ ] Not important
- [ ] Don’t know

11. What do your customers consider the prices of your services to be (please tick as appropriate)

- [ ] Higher than competition
- [ ] Similar to competition
- [ ] Lower than competition

12. Please give reasons why your price is as indicated above

a. ______________________________________________________

b. ______________________________________________________

c. ______________________________________________________
13. What measures has your firm put in place to lower costs in order to improve profitability?

________________________________________________________________________

________________________________________________________________________

14. How would you rate the impact of the forces below on your firm’s success? Use a scale of 1-5 Where 5 is the most important and 1 is the least important

<table>
<thead>
<tr>
<th>Force</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing Competition</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Competitors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Substitute Service</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government Policy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

15. What measures are in place in your organization geared to improving sales? Use a scale of 1-5 Where 5 is the most important and 1 is the least important (Please tick the appropriate box)

<table>
<thead>
<tr>
<th>Measure</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seeking corporate customer</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low prices</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Promotions</td>
<td></td>
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</tr>
</tbody>
</table>
(II.) DIFFERENTIATION

16. a) Do you try to create unique image of your shipping firm to tour customers?

☐ Yes ☐ No

b) If yes, how do you usually do it?

1 ..............................................................

2 ..............................................................

3 ..............................................................

17. In terms of level of importance, how much do you think the following helps in making your shipping company unique among others? Use a scale of 1 to 5 Where 5 is the most important and 1 is the least important. (Please tick the appropriate box)

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ship Labelling</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipments Labelling</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Letter heads on printed materials</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sponsorships e.g. Sports</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

18. Please indicate (tick) to what extent you have used the following action plans to beat competition in the market. Indicate by circling as appropriate on the scale of 1-5, where 1 = Used to a greater extent and 5 = Not used at all.
1. Offering services not offered by competitors

2. Offering high quality services

3. Offering better terms services

4. Providing a longer repayment period for credit services

5. Offering a lower minimum deposit for lease of equipments
e.g. Containers

19. What are the advantages /disadvantages your shipping company drives by being located in this particular place?

Advantages,
1. ___________________________
2. ___________________________
3. ___________________________
4. ___________________________

Disadvantages,
1. ___________________________
2. ___________________________
3. ___________________________
4. ___________________________
20. Are there some customers who exclusively rely on your company for shipping services?

☐ Yes ☐ No

21. If yes, how do you ensure you retain their loyalty

..........................................................................................................................................................

..........................................................................................................................................................

..........................................................................................................................................................

22. Are there any market segments your company is targeting to capture?

☐ Yes ☐ No

23. If yes, what are the measures your company is taking to acquire this category of customers?

..........................................................................................................................................................

..........................................................................................................................................................

..........................................................................................................................................................

..........................................................................................................................................................

.............
24. How do you inform people about your presence and services?


DATE: 26th September 2008

TO WHOM IT MAY CONCERN

The bearer of this letter Disi Michael Mwalimu

Registration No: D61/P/7971/2004

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

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

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

Thank you.

Cyrus Irava
CO-ORDINATOR, BANDARI CAMPUS