A SURVEY OF THE COMPETITIVE STRATEGIES ADOPTED BY CREDIT CARD PROVIDERS IN KENYA

BY

CHANG’OROK JOSEPH

A Management Research Project Submitted in Partial Fulfilment of the Requirement for the Degree of Master of Business Administration School of Business, University of Nairobi

OCTOBER 2009
DECLARATION

I declare that this is my original work and has not been submitted for examination in any other University

Signature

Date: 16/11/09

Chang’orok Joseph

D61/P/7288/05

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

Signature: J. Maalu

Date: 16/11/09

J. Maalu

Department of Business Administration
School of Business
University of Nairobi
DEDICATION

To my parents, siblings and colleagues for their inspiration, moral support and enduring in my absence even as I struggled to get this work completed.
ACKNOWLEDGEMENT

Immense gratitude to the almighty God for the health, strength, ability and courage to face the world with confidence.

Profound acknowledgement to my late father Rev. Simon Changorok, Mum, Elizabeth, siblings, Francis, Joel, late Malachi, Chemtai and Erick who have been source of inspiration, support and love.

My gratitude goes to University of Nairobi for granting me this opportunity to undertake this research project. Sincere thanks to my supervisors Mr. Maalu for his patience, guidance, support and tireless assistance on matters pertaining to this project. Heartfelt thanks to Hon. Rev. Murgor for his support throughout this study.

Much appreciation goes to my friends Ntaine, Bett for their encouragement and time when I needed them most.

For all those behind the successful completion of my research, God Bless you.

Thank you all.

Chang'orok Joseph
**TABLE OF CONTENTS**

DECLARATION............................................................................................................................. ii  
DEDICATION............................................................................................................................... iii  
ACKNOWLEDGEMENT.............................................................................................................. iv  
LIST OF TABLES........................................................................................................................ viii  
ABSTRACT..................................................................................................................................... x  
LIST OF ACRONYMS AND ABBREVIATIONS......................................................................... xii

**CHAPTER ONE: INTRODUCTION..........................................................................................1**  
1.1 Background of the study ................................................................................................. 1  
1.1.1 Competitive strategies .............................................................................................. 2  
1.1.2 Credit card industry in Kenya ................................................................................... 4  
1.2 Statement of the Problem ............................................................................................... 6  
1.3 Objective of the Study ..................................................................................................... 7  
1.4 Importance of the Study ................................................................................................. 8

**CHAPTER TWO: LITERATURE REVIEW.............................................................................9**  
2.1 The concept of strategy ................................................................................................. 9  
2.2 Concept of competition ................................................................................................. 10  
2.3 Competitive strategy .................................................................................................... 12  
2.4 Generic Strategies ........................................................................................................ 14  
  2.4.1 Low Cost Provider Strategy .................................................................................... 14  
  2.4.2 Broad Differentiation Strategy ................................................................................ 15  
  2.4.3 Best Cost Provider Strategy .................................................................................... 16  
  2.4.4 Focused Strategy based on Low Cost .................................................................... 16  
  2.4.5 Focused Strategy based on Differentiation ............................................................. 16  
2.5 Grand Strategies ........................................................................................................... 18  
  2.5.1 Penetration strategies: ............................................................................................. 18  
  2.5.2 Market development strategies: ............................................................................. 19  
  2.5.3 Geographic expansion strategies ............................................................................ 19  
  2.5.4 Product development strategies ............................................................................. 19  
  2.5.5 Chain integration strategies .................................................................................... 20  
  2.5.6 Diversification strategies........................................................................................ 20
**LIST OF TABLES**

<table>
<thead>
<tr>
<th>Table 4.1: Gender of the respondents</th>
<th>24</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 4.2 Age of the respondents</td>
<td>25</td>
</tr>
<tr>
<td>Table 4.3 Work experience</td>
<td>25</td>
</tr>
<tr>
<td>Table 4.4 Credit card Providers</td>
<td>26</td>
</tr>
<tr>
<td>Table 4.5 Competitive strategies</td>
<td>26</td>
</tr>
<tr>
<td>Table 4.6 The success of generic strategies</td>
<td>30</td>
</tr>
<tr>
<td>Table 4.7 Grand strategies</td>
<td>31</td>
</tr>
<tr>
<td>Table 4.8 The success of grand strategies</td>
<td>34</td>
</tr>
<tr>
<td>Table 4.9 Challenges facing banks</td>
<td>35</td>
</tr>
<tr>
<td>Table 4.10 Challenges facing the industry</td>
<td>36</td>
</tr>
</tbody>
</table>
LIST OF FIGURES

Figure 2.1: The Five Generic Competitive Strategies ................................................................. 17
ABSTRACT
The single most important goal for any firm is achieving competitive advantage. Managers have
ton pondered why some organizations have been able to have a competitive advantage,
while others have not. Without proper strategies in place firms may never live to secure a
competitive edge over their rivals. Although in many organizations especially in Kenya
identification of the sources of competitive advantage has become an increasing priority, the
areas of strategy formulation and marketing in the credit card industry have made considerable
step towards a comprehensive development of competitive strategies that can indeed provide
advantage over competitors. This study was guided by two objectives; to establish the
competitive strategies being employed by credit card industry in Kenya and to determine the
challenges facing the implementation of strategies within the firm and in the industry.

Descriptive study was employed in this study where both qualitative and quantitative methods of
data collection were used. It targeted 9 commercial banks dealing in credit cards with 9
respondents one from each bank being interviewed. A self-administered open and closed ended
questionnaire was employed in collecting primary data from the field. In addition, in depth
interviews and desk research were used for confirmation and verification. Data collected from
the field was analyzed mainly using descriptive analysis method, and information presented in
charts, frequency distribution tables and figures.

This research documented that both generic and grand strategies are being employed by
commercial banks as they strive to outdo each other in this competitive market. However, a
number of challenges also hinder the success of the credit card industry in Kenya; these
challenges are both within the banks and the industry as a whole. Challenges such as lack of staff
training, huge capital requirement, distribution cost and the inability of commercial banks to
market their products are specific to commercial banks.

The challenges facing the industry are; lack of credit card culture in Kenya, poor communication
and restrictive policies. This study recommends further research in future to be carried out to
determine the dimension of competition in the industry and establish if there are other strategies
at play other than generic and grand strategies. It also suggests an investigation to be done on
what other factors may determine the success and failures of competitive strategies in the
banking industry as a whole. Lastly a more detailed analysis of competitive strategies in other
industries is also necessary in order to determine their contribution to competitive advantage.
LIST OF ACRONYMS AND ABBREVIATIONS

CBA – Commercial Bank of Africa
CBK – Central Bank of Kenya
CFC – CFC Stanbic Bank
KCB – Kenya Commercial Bank
KTN – Kenya Television Network
NIC – National Industrial Credit Bank Limited
SPSS – Statistical Package for Social Sciences
CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Businesses all over the world are faced with the challenges posed by the ever changing and turbulent competitive environment. The rate, direction and magnitude of this competition must therefore be the concern of every top executive entrusted with the running of any organization. Open systems theory gives wider and clearer explanation as to why businesses must be environmentally sensitive for their growth and survival. The business world is never static (Brown and Eisenhardt, 1998). One of the challenges presented by a dynamic environment is increased competition. Competition is indeed a very complex phenomenon that is manifested not only in other industry players, but also in form of customers, suppliers, potential entrants and substitute products. It is therefore necessary for a firm to understand the underlying sources of competitive pressure in its industry in order to formulate appropriate strategies to respond to competitive forces (Porter, 1979).

Achieving competitive advantage has been recognized as the single most important goal of firm (Porter, 1980). Managers have overtime pondered why some organizations have been able to secure an advantageous competitive position, while others have not. Without proper relationship with all the stake holders a firm will have few economic reasons for existing and finally will wither away. Although identification of the sources of competitive advantage has become an increasing priority, the areas of customer care and marketing managers in the credit card industry have made considerable effort to comprehend how competitive strategies can indeed give them advantage over its competitors. The success of every organization is determined by its responsiveness to the environment. To be able to retain competitive advantage, organizations
need to examine their environment both external and internal and respond accordingly (Porter, 1985).

1.1.1 Competitive strategies

One of the challenges presented by a dynamic environment such as the banking industry is increasing competition. Competition is a complex phenomenon that is manifested not only in other industry players, but also in form of customers, suppliers, potential entrants and substitute products and services. In effect a firm ought to fully understand the underlying sources of Competitive pressure in its industry in order to formulate appropriate strategies to respond to competitive forces (Porter, 1997). Johnson and Scholes (2002), defines competitive strategy as the bases on which a business unit might achieve competitive advantage in its market. Organizations achieve competitive advantage by providing their customers with what they want, or need, better or more effectively than competitors; and in ways, which their competitors find difficult to imitate. Porter (1998) defines competitive strategy as being different. It means deliberately choosing to perform activities differently or to perform different activities better than rivals to deliver unique mix of value.

With the increasing need to render superior value to customers, employees, shareholders, and other external stakeholders, organizations are seeking competitive strategies that focus on cost leadership, differentiation and focus. It is believed that these generic strategies can lead organizations to outsmart the competition. Nonetheless, the choice of strategy depends on the corporate/business units of the organization. A company’s competitive strategy consists of the business approaches and initiatives it undertakes to attract customers and fulfill their expectations, to withstand competitive pressures and to strengthen its market position. The
competitive strategy provides a framework for the firm to respond to the various changes within the firm’s operating environment.

Firms also develop competitive strategies to enable them to seize strategic initiatives and maintain a competitive edge in the market (Porter, 1998). The competitive aim is to do a significantly better job of providing what buyers are looking for, thereby enabling the company to earn a competitive advantage and out-compete rivals in the marketplace. The core of a company’s competitive strategy consists of its internal initiatives to deliver superior value to customers. But it also includes offensive and defensive moves to counter the maneuvering of rivals, 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. It involves positioning a business to maximize the value of the capabilities that distinguish it from its competitors. Johnson and Scholes (2002), defines competitive strategy as the bases on which a business unit might achieve competitive advantage in its market. Organizations achieve competitive advantage by providing their customers with what they want or need, better or more effectively than competitors and in ways which competitors find difficult to imitate. Firms develop competitive strategies to enable them to seize strategic initiatives and maintain a competitive edge in the market (Porter, 1998). The competitive aim is to do a significantly better job of providing what buyers are looking for, thereby enabling the company to earn a competitive advantage and outsmart rivals in the market place.
1.1.2 Credit card industry in Kenya

Credit cards got their start in the United States just before the beginning of World War I. Department stores began the practice of issuing dog-tag style metal plates to their favorite customers. By 1924 gas credit cards appeared on the scene, the first cards that could be used at merchants all over the country. This was an important advance, because as automobiles became more common so did traveling, and a gas card that was not accepted away from home had limited value. Indeed, the increasing mobility of the average person is one very important reason that credit cards have exploded with popularity. Visa and MasterCard are not actual issuers, they are merely payment networks. This means that they are computer systems that process credit card transactions. Banks use either Visa or MasterCard and it is the financial institution, bank or credit union that actually issues you the credit card. There is not much difference between Visa and MasterCard for the consumer; both offer similar benefits. MasterCard and Visa both put limits on the liability a consumer is responsible for if a card is stolen or lost. They both also allow you to charge back merchandise that is broken or damaged. In addition, most places that accept one accept the other. They issue cards through the discover bank-plus a few patterned banks and are known for offering the best cash back and rewards cards (Koontz, 2009).

American Express began as an exclusive lender, only providing charge cards, not credit cards, to very select customers. American Express still has a higher reputation than the other three, although they now issue credit cards are not nearly as widely accepted as Visa and MasterCard.

Today credit cards come in multiple levels with ranging interests’ rates, fees and reward programs. Examples of the most common ones worldwide include cash back credit cards, airline credit cards, business credit cards, student credit cards prepaid and debit cards. In Kenya the
Credit card services are mainly offered by the banking industry. The industry is governed by the Companies Act, within the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. Of the 9 commercial banks providing credit card services in Kenya; Barclays bank leads with 8 products in the market while KCB is second with 5 products. CBA, CFC Stanbic and Prime bank follow with 3 products each. Cooperative bank, Imperial bank and Southern credit bank has 2 products each with NIC bank being the last with 1 product in the market. In total there are 29 credit cards circulating in the Kenya market today. With new services being designed every other day the number is expected to rise to over 50 before the end of the year (Barclays market intelligence, 2008).

According Kenya monthly economic review of December (2008), over the last few years, the Banking sector in Kenya has continued to grow in assets, deposits, profitability and products offering. The growth has been mainly underpinned an industry wide branch network expansion strategy both in Kenya and in the East African community region. Automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional ‘off-the-shelf’ banking products. Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market.
Organizations have come to the realization that in today's very competitive marketplace a strategy that insures a consistent approach to offering you product or service in a way that will outsell the competition is critical. However, in concert with defining the competitive strategy one must also have a well defined methodology for the day to day process of implementing it. In the process of creating a marketing strategy you must consider many factors. Of those many factors, some are more important than others. Because each strategy must address some unique considerations, it is not reasonable to identify 'every' important factor at a generic level. The credit card industry has an underlying structure, or a set of fundamental economic and technical characteristics, that gives rise to the competitive forces. In this regard there is need for each one of them to have a strategy that will help it to survive. In Kenya credit cards have become a way of life especially that they have been designed to suit every lifestyle. In every retail outlet today credit cards have provided a convenient way of making payments. They are arguable the most convenient way of settling various financial transactions from purchasing products and services to paying utility bills in Kenya today than never before. The most common ones in use include; master card, visa card, and express (Barclays market intelligence, 2008).

Several scholars have carried out extensive studies on competitive strategies in other industries. Murage (2001) in her research on competitive strategies adopted by members of the Kenya Independent Petroleum Dealers Association found out that focus and price differentiation are some of the major strategies that the association has employed in its quest to remain competitive. Similarly Mulaa (2004) looked at competitive strategies adopted by small scale enterprises in exhibition halls in Nairobi his conclusion was that small scale enterprises strive for low cost and
price differentiation strategies. Okoth (2005) focused on competitive strategies employed by sugar manufacturing firms in Kenya. He concluded that sugar manufacturing companies in Kenya face stiff competition from cheap imports from neighbouring countries and that they need to respond to this competition to retain market share. Lastly Karoney (2008) looked at the competitive strategies adopted by Broadcast Media industry in Kenya, she established that KTN in particular which was the subject of the study goes for differentiation of programs and focus, however the station does not employ low cost as it was found out to be disadvantageous to the company. These studies have looked at such industries as manufacturing, energy and service but none has looked at competitive strategies being employed by players in the credit card industry. Since there is intense competition in the industry, there is compelling need to look at the competitive strategies being adopted by the players in this competitive industry. A knowledge gap therefore existed regarding competitive strategies in the credit card industry in Kenya.

This research sought to establish the existing nature of competition and what kind of competitive strategies are being adopted in this competitive industry by major industry players in Kenya by using Porter’s competitive strategy framework.

1.3 Objective of the Study

The objectives that guided the study are;

1 To establish the competitive strategies being employed by credit card industry in Kenya

2 To determine the challenges facing the implementation of strategies within the firm and in the industry
1.4 Importance of the Study

First company executives in the banking industry will use the findings in drafting strategies on how to operate in the Kenyan market. It will help them understand better strategic initiatives mostly applied by competitors to maintain their market shares in Kenya. With this knowledge they will be in a better position to steer the business in the right direction.

Secondly investors will also use the information to make decisions regarding investments in the industry. If the Kenyan credit card industry is attractive this may be a guarantee for returns on investment hence attracting investors.

Thirdly the research findings will be of value to the industry players who will have available information on the industry as a whole. Further it will help individual banks to formulate strategies once they know how the industry is performing.

The fourth importance is that Scholars in the field of strategic management will use the information to understand the state of the industry better. They will also use the information as a reference point to research on the responses to innovations in other industries.

Finally the Government will find the information useful in diagnosing the problems affecting the credit card industry and come up with solutions to encourage investments in the industry.
CHAPTER TWO: LITERATURE REVIEW

2.1 The concept of strategy

The concept of strategy is believed to have originated from the ancient Greeks and that the word strategy comes from the Greek ‘stratego’, meaning to plan the destruction of one's enemies through the effective use of resources (Burnes, 1999). Ellis and Williams (1993) also note that the term strategy comes from the Greek ‘strategos’, meaning the general and suggests the organizational strategy relates to a "grand design" something of significance to the overall pattern of an organization's activities. This definition suggests that organizational strategies in their broadest sense provide a guide or sense of direction to the organization. Chandler (1962) views the emergence of strategy in civilian organizational life to have resulted from an awareness of opportunities and needs created by changing population, income and technology – to employ existing or expanding resources more profitably.

Strategy is a set of decision making rules for guidance of organizational behaviour (Ansoff and Mc Donnel, 1990). The implication of this view is that an organization is supposed to interact with the environment according to some predetermined pattern. According to Havel and Prahalad, (1989), the essence of strategy lies in creating tomorrow's competitive advantages faster than competitors mimic the ones you possess today, while Hax and Majluf (1991) view strategy as a fundamental framework through which an organization can assert its vital continuity, while at the same time, forcibly facilitating its adoption to changing environment. The essence of strategy thus becomes the purposeful management of change in every business in which the firm is engaged.
Various perceptions (or strategy) exist but writers have not come up with an agreed, all
embracing definition of strategy and indeed one of the pioneers of business strategy (Ansoff,
1987) warned that strategy is an elusive and somewhat abstract concept that is still developing.
Mitzberg (1988) support this view by proposing five interrelated definitions of strategy as
follows: They propose that strategy may be viewed as plan, some consciously intended course of
action which is created ahead of events, or as a ploy, a maneuver to outwit an opponent. It may
also be viewed as a pattern; which means the consistent action of an organization over time after
an event. When strategy is used for achieving or maintaining competitive advantage in the
market place that cannot be challenged by competitors, then it may be viewed as a position.
Alternatively, strategy may be seen as a perspective; a somewhat abstract concept that exist
primarily in people’s mind (Porter, 1998).

2.2 Concept of competition

One of the environmental influences to a business is competition. Increased competition
threatens the attractiveness of an industry by reducing the profitability of players. Competition
exerts pressure on firms to be proactive and to formulate successful competitive strategies to deal
with threats and harness opportunities in the environment. Firms that do not respond effectively
to increased competition are not likely to succeed in business (Porter, 1996). Firms in dynamic
industries respond to competitive forces in different ways. While some may resort to improving
current markets and products, diversification or divestiture, others employ techniques that ensure
operational effectiveness. However, much as operational effectiveness is necessary, it is not
sufficient in achieving sustainable competitive advantage.
Competitive strategy needs to focus on unique activities (Porter, 1996). Greenstein (2001), in his study on technological mediation and commercial development in the internet access market, also support the idea that different firms respond with different strategies to the same opportunities. Some offer similar solutions to different users, others develop expertise to ensure repeat business from complementary services. With the same products and markets, a firm tries to improve its competitiveness by protecting and building its current market position. The option of withdrawal from some current activities may be pursued especially where the firm lacks competences to compete effectively.

A firm may respond to increased competition by entering new markets with similar products. These could be markets they are currently not serving, or new geographical markets. They can come up with new uses for their current products thus exploit opportunities through some slight modifications to suit the needs of the market. Market entry strategies may include acquisition, strategic alliances and joint ventures. Firms may also react to competitive forces by developing new products. This means extending their portfolio and spreading the risk across many products. Such products can be directed to markets currently covered by the firm (Greenstein 2001). A firm assesses its internal capability to exploit emerging opportunities effectively and also manage threats. A SWOT analysis will identify core competencies that provide competitive advantage for an organization. Nevertheless, overtime, competitors may imitate such competencies. "Core competencies are likely to be more robust and difficult to imitate if they relate to the management of linkages within the organization’s value chain and linkages into the supply and distribution chains": (Johnson and Scholes, 1997).
2.3 Competitive strategy

Competitive strategy specifies the distinctive approach which the firm intends to use in order to succeed in each of the strategic business areas. Competitive strategy gives a company an advantage over its rivals in attracting customers and defending against competitive forces (Ansoff, 1985). There are many roots to competitive advantage, but the most basic is to provide buyers with what they perceive to be of superior value a good service at a low price, a superior service that is worth paying more for, or a best value offering that represents an attractive combination of prices, features, quality, service, and other attributes buyers find attractive (Thompson and Strickland, 2003). Competition is the core of the success or failure of firms. It determines the appropriateness of a firm's activities that can contribute to its performance such as innovation, a cohesive culture or good implementation. Competitive strategy is thus the search for a favourable 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, 1998).

Firms pursue competitive strategies when they seek to improve or maintain their performance through independent actions in a specific market or industry. There are two major types of competitive business strategies: cost leadership and product differentiation (Porter, 1980). Firms pursuing cost leadership strategies attempt to gain advantages by lowering their costs below those of competing firms. Firms pursing product differentiation strategies attempt to gain advantages by increasing the perceived value of the products or services they provide to customers. Competitive business strategies are important strategic alternatives for many firms, but they are not the only business strategic alternatives (Barney, 1997). Competitive strategy
needs to focus on unique activities (Porter, 1996). Greenstein (2001), in his study on technological mediation and commercial development in the internet access market, also support the idea that different firms respond with different strategies to the same opportunities. Some offer similar solutions to different users, others develop expertise to ensure repeat business from complementary services. With the same products and markets, a firm tries to improve its competitiveness by protecting and building its current market position. The option of withdrawal from some current activities may be pursued especially where the firm lacks competences to compete effectively.

Firms that do not respond effectively to increased competition are not likely to succeed in business (Porter, 1996). Firms in dynamic industries respond to competitive forces in different ways. While some may resort to improving current markets and products, diversification or divestiture, others employ techniques that ensure operational effectiveness. However, much as operational effectiveness is necessary, it is not sufficient in achieving sustainable competitive advantage. Competitive strategies should lead to competitive dominance, which in the words of Tang and Bauer (1995) is about sustained leadership and levels of undisputed excellence. They (Tang & Bauer) contend that competitive dominance is an attitude that begins with the realization that leadership position is no guarantee for long term success, especially in the global market place. It begins with a strong conviction that leadership is temporary and a belief that smart and competent competitors are always fully prepared to dislodge the leader or to displace the incumbent. Competitive dominance seeks to position the firm for future opportunities through quality initiatives and offerings that delight customers. It seeks to align, integrate and synchronize strategy and quality to achieve future leadership and to be able to sustain it. The
core of a company’s competitive strategy consists of its internal initiatives to deliver superior value to customers. But it also includes offensive and defensive moves to counter the maneuvering of rivals, 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 prevail at the moment (Thompson and Strickland, 2003).

2.4 Generic Strategies

Generic strategies were used initially in the early 1980s, and seem to be even more popular today. They outline the five strategic options open to organization that wish to achieve a sustainable competitive advantage. Each of the five options is considered within the context of two aspects of the competitive environment: Sources of competitive advantage - are the products differentiated in any way, or are they the lowest cost producer in an industry? Competitive scope of the market - does the company target a wide market, or does it focus on a very narrow, niche market? (Porter, 1980). Many planners believe that any long term strategy should drive from a firm’s attempt to seek a competitive advantage based on one of the generic strategies. Advocates of generic strategies believe that each of these options can produce above average returns for a firm in an industry. However, they are successful for very different reasons. (Pearce & Robinson, 1991).

2.4.1 Low Cost Provider Strategy

This is based on the concept that you can produce and market a good quality product or service at a lower cost than your competitors. Striving to achieve lower overall costs than rivals and appealing to a broad spectrum of customers, usually by under pricing rivals. These low costs should translate to profit margins that are higher than the industry average. Some of the
conditions that should exist to support a cost leadership strategy include an on-going availability of operating capital, good process engineering skills, and close management of labor, products designed for ease of manufacturing and low cost distribution (Porter, 1980). Low cost leaders depend on some fairly unique capability to achieve and sustain their low cost position and are able to use its cost advantage to charge lower prices or enjoy higher profit margins. By so doing the firm can effectively defend itself in price wars, attack competitors on price to gain market share, or if dominant in the industry already simply benefit from exceptional returns (Pearce & Robinson, 1991).

2.4.2 Broad Differentiation Strategy

Seeking to differentiate the company’s product offering from rivals in ways that will appeal to a broad spectrum of buyers. This is one of creating a product or service that is perceived as being unique "throughout the industry". The emphasis can be on brand image, proprietary technology, special features, superior service, a strong distributor network or other aspects that might be specific to your industry. This uniqueness should also translate to profit margins that are higher than the industry average. In addition, some of the conditions that should exist to support a differentiation strategy include strong marketing abilities, effective product engineering, creative personnel, the ability to perform basic research and a good reputation (Porter, 1980). Strategies dependent on differentiation are designed to appeal to customers with a special sensitivity for a particular product attributed. By stressing the attribute above other product qualities, the firm attempts to build customer loyalty. Often such loyalty translates into a firm’s ability to charge a premium price for its product (Pearce & Robinson, 1991).
2.4.3 Best Cost Provider Strategy

This strategy gives customers more value for their money by incorporating good to excellent product attributes at a lower cost than rivals; the target is to have the lowest (best) costs and prices compared to rivals offering product with comparable attributes (Thompson, Strickland & Gamble, 2008).

2.4.4 Focused Strategy based on Low Cost

A focused (or market niche) strategy is based on low costs concentrating on a narrow buyer segment and outcompeting rivals by having lower costs than rivals and thus being able to serve niche members at a lower price. A firm pursuing a focus strategy is willing to service isolated geographic areas, to satisfy the needs of customers with special financing, inventory, or servicing problems; or to tailor the product to the somewhat unique demands of the small to medium sized customers (Pearce & Robinson, 1991). To succeed with a low-cost provider strategy, company managers have to scrutinize each cost creating activity and determine what factors cause costs to be high or low. Then they have to use this knowledge to keep the unit cost of each activity low, exhaustively pursuing cost efficiencies throughout the value chain. They have to be proactive in restructuring the value chain to eliminate non essential work steps and low value activities (Thompson, Strickland & Gamble, 2008).

2.4.5 Focused Strategy based on Differentiation

A focused (or market niche) strategy based on differentiation – concentrating on a narrow buyer segment and outcompeting rivals by offering niche members customized attributes that meet their tastes and requirements better than rivals products (Thompson, Strickland & Gamble,
This strategy is the most sophisticated of the generic strategies, in that it is a more 'intense' form of either the cost leadership or differentiation strategy. It is designed to address a "focused" segment of the marketplace, product form or cost management process and is usually employed when it isn't appropriate to attempt an 'across the board' application of cost leadership or differentiation. It is based on the concept of serving a particular target in such an exceptional manner, that others cannot compete. Usually this means addressing a substantially smaller market segment than others in the industry, but because of minimal competition, profit margins can be very high (Porter, 1980).

**Figure 2.1: The Five Generic Competitive Strategies**

2.5 Grand Strategies

An organization can elaborate a business in a number of ways. It can develop its product offerings within that business, it can develop its market via new segments, new channels, or new geographical areas, or it can simply push the same products more vigorously through the same markets. The following are grand strategies that a firm can use to gain competitive advantage;

2.5.1 Penetration strategies:

Penetration strategies work from a base of existing products and existing markets, seeking to penetrate the market by increasing the organization’s share of it. This may be done by straight expansion or by the takeover of existing competitors. Trying to expands sales with no fundamental change in product or market (buying market share through more promotion, etc) is at one and the same time the most obvious thing to do and perhaps the most difficult to succeed at, because, at least in a relatively stable market, it means extracting market share from other firms, which logically leads to increased competition (Mintzberg & Quinn, 1991).

These influences include the ability to assess market needs, knowledge of buyer behaviours, customer price sensitivity, and effectiveness of promotion. Further underscoring the importance of concentrated growth based company skills; the study also shows that these core capabilities are a more important determinant of competitive market success than are the environmental forces faced by the firm. The high success rates of new products are also tied to avoiding situations that require undeveloped skills, such as serving new customs and markets, acquiring new technology, building new channels, developing new promotional abilities, and facing new competition (Pearce & Robinson, 2005).
2.5.2 Market development strategies:

A predominant strategy here is a market elaboration, which means promoting existing products in a few markets — in effect broadening the scope of the business by finding new markets segments, perhaps served new channels. Product substitution is a particular case of market elaborating where uses for a product are promoted that enables it to substitute for other products (Mintzberg & Quinn 1991). Market development allows firms to practice a form of concentrated growth by identifying new users for existing products and new demographically, psychographically or geographically defined markets. Frequently, changes in media selection, promotional appeals, and distribution are used to initiate this approach (Pearce & Robinson, 2005).

2.5.3 Geographic expansion strategies

An important form of market development can be geographic expansion — carrying the existing product offering to new geographical areas, anywhere from the next block to across the world. When this also involves a strategy of geographic rationalization — locating different business functions in different places — it is sometimes referred to as a “global strategy.

2.5.4 Product development strategies

Here we can distinguish a simple product extension strategy from a more extensive product line proliferation strategy, and the counterparts, product line rationalization. Offering new or modified products in the same basic business is another obvious way to elaborate a core business. This may amount to differentiation nation by design, if the products are new and distinctive, or else to no more than increase scope through segmentation, if standardized products
are added to line. Product development involves the substantial modification of existing products or the creation of new but related products that can be marketed to current customers through established channels. The product development strategy is often adopted either to prolong the life cycle of current products or to take advantage of a favourable reputation or brand name. The idea is to attract satisfied customers to new products as a result of their positive experience with the firm’s initial offering (Pearce & Robinson, 2005).

2.5.5 Chain integration strategies
Organizations can extend their operating chains downstream or upstream, encompassing within their own operations the activities of their customers on the delivery end or their suppliers on the sourcing. In effect, they choose to “make” rather than to “buy” or sell. Impartation (Barreyre, 1984; Barreyre and Carle, 1983) is a label that has been proposed to describe the positive strategy, where the organization choose to buy what is previously made, or sell what is previously transferred. Chain integration or diversification may be achieved by internal development or acquisition. In other words, an organization can enter a new business by developing it itself or by buying an organization already in that business. Both internal development and acquisition involve complete ownership and formal control of the diversified business (Mintzberg & Quinn, 1991).

2.5.6 Diversification strategies
Diversification refers to the entry into some business not in the same chain of operation. It may be related to some distinctive competence or asset of the core business itself (also called concentric diversification); otherwise, it is referred to as unrelated or conglomerate,
diversification. In related diversification, there is evident potential synergy between the new business and the core one, based on a common facility, asset, channel, skill, even opportunity. Porter (1985: 323-324) makes the distinction here between "intangible" and "tangible" relatedness. In many countries, it has become increasing risky not to innovate.

Both consumer and industrial markets have come to expect periodic changes and improvements in the product offered. As a result, some firms find it profitable to make innovation their grand strategy. They seek to reap the initial high profits associated with customer acceptance of a new or greatly improved product. Then, rather than face stiffening competition as the basis of profitability shifts from innovation to production or marketing competence, the search for other original or novel ideas. The underlying rationale of the grand strategy of innovation is to create a new product life cycle and thereby make similar existing product obsolete. Thus this strategy differs from the product development strategy of extending an existing product's life cycle. While most growth oriented firms appreciate the need to innovate occasionally a few firms use it as their fundamental way of relating to their markets (Pearce & Robinson, 2005).
CHAPTER THREE: RESEARCH APPROACH AND METHODOLOGY

3.1 Introduction
This chapter outlines the plan that was used to collect and analyze data so that desired information could be obtained with sufficient precision. It further laid down the procedures and methods used in the exercise.

3.2 Research Design
The study employed descriptive survey to assist the researcher in identifying the competitive strategies employed by credit card providers in Kenya. Descriptive research attempts to provide a description of variables from members of the population. This research design was appropriate for this study as the researcher had information on the strategies being employed in the industry.

3.3 Population
According to Central Bank of Kenya report of 2008, the number of active credit card providers in Kenya when this study was carried out was 9. Since they were few in number the study sought to carry out a census to establish the competitive strategies being employed in the industry.

3.4 Data collection
This research used primary data and the use of questionnaires was considered appropriate. In order to collect relevant data for this study, standardized questions were used to identify and describe the validity in different phenomena. This method was also considered appropriate as it provided detailed information including other supplementary information through probing which gave the respondents a chance to give other information that they considered relevant. It also gave respondents liberty in expressing their definition of a situation that was presented to them.
A “drop and pick” method of administering the questionnaires was used. These questionnaires were delivered to 9 respondents 1 each from the credit card providers in Kenya using the most convenient method, by hand, post or through e-mail.

3.5 **Data analysis**

Data was cleaned, validated, edited and coded then summarized using census, percentages, and mean scores. Key characteristics of the industry like services offered; challenges encountered, and pricing structure were identified and measured using likert- scale. Analysis was then done to determine the existing strategies in the industry. This was mainly done using means that helped in identifying the factors with the highest weights.
CHAPTER FOUR: DATA ANALYSIS AND DISCUSSIONS

4.1 Introduction

This section covers data analysis, presentation, and discussion on data gathered from the field. The data collected was analyzed mainly using descriptive statistics. The presentation of the analysis captured analysis made using percentages, means and frequency counts. The major findings of the study as they relate to each of the research objectives are presented.

4.2 Sample characteristics

4.2.1 Response rate

A sample of 9 respondents mainly managers in credit card sections from the nine banks was chosen for this study. A semi structured questionnaire having both open and closed ended questions were used to collect data. Data was cleaned, coded and analyzed using SPSS and EXCEL software. The study recorded 100% response rate with all the 9 respondents responding successfully. The researcher interviewed one senior manager from each of the nine banks under study. The banks under study were Barclays bank, KCB bank, CBA bank, Cooperative bank, CFC Stanbic bank, Prime bank, Imperial and Southern Credit bank.

4.2.2 Gender of the respondents

Table 4.1: Gender of the respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>6</td>
<td>67%</td>
</tr>
<tr>
<td>Women</td>
<td>3</td>
<td>33%</td>
</tr>
<tr>
<td>Total</td>
<td>9</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Research data
The study had a 67% response being men and 33% being women. This representation is illustrated in table 4.1:

### 4.2.3 Age of the respondents

The age of the respondents interviewed ranged from those slightly below 35 to those over 45 years. Of the 9 responses 45% fall in those below 35 years age bracket, the minority of the respondents which is 22% belong to 35-45 group while another 33% represent those who are 46 years and above.

<table>
<thead>
<tr>
<th>Age Bracket</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 35</td>
<td>4</td>
<td>45%</td>
</tr>
<tr>
<td>35 – 45</td>
<td>2</td>
<td>22%</td>
</tr>
<tr>
<td>46 and above</td>
<td>3</td>
<td>33%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Research Data

### 4.2.4 Work experience

<table>
<thead>
<tr>
<th>Years worked</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 5</td>
<td>5</td>
<td>56%</td>
</tr>
<tr>
<td>5 – 15</td>
<td>3</td>
<td>33%</td>
</tr>
<tr>
<td>15 and above</td>
<td>1</td>
<td>11%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Research Data

On the work experience in the respective banks, 56% of the respondents have been working with the bank for 5 years and below while 33% have worked for between 5 and 15 and the remaining 11% have had over 15 years experience in the bank. Table 4.3 illustrate this information.
4.3 Credit card providers

Table 4.4 Credit card Providers

<table>
<thead>
<tr>
<th>Banks</th>
<th>Products (Credit Cards)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bank</td>
</tr>
<tr>
<td>BBK</td>
<td></td>
</tr>
<tr>
<td>KCB</td>
<td></td>
</tr>
<tr>
<td>CBA</td>
<td></td>
</tr>
<tr>
<td>CFC-SBIC</td>
<td></td>
</tr>
<tr>
<td>PRIME</td>
<td></td>
</tr>
<tr>
<td>IMPERIAL</td>
<td></td>
</tr>
<tr>
<td>CO-OP</td>
<td></td>
</tr>
<tr>
<td>S.CREDIT</td>
<td></td>
</tr>
<tr>
<td>NIC</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research data

The products offered by credit card providers in Kenya are summarized in table 4.4 above, Barclays bank of Kenya leads with 8 products, and KCB bank is second with 5 products while CBA bank, CFC Stanbic bank and prime bank have 3 products each. Imperial bank, Cooperative and Southern Credit banks each have 2 products in the market. Lastly NIC bank has only 1 product in the market. In total there are 29 credit cards in circulation in Kenya today. The customers targeted by these commercial banks range from students to companies, commercial banks are in business and where they find market they exploit. Respondents when asked about their target clientele responded that they are targeting every one who is willing to use the credit card services.

4.4 Competitive strategies

Table 4.5: Competitive strategies

<table>
<thead>
<tr>
<th>Strategies used</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
<th>%Yes</th>
<th>%No</th>
<th>Total%</th>
</tr>
</thead>
</table>

26
Differentiation strategy

This strategy seeks to differentiate the company’s product offering from rivals in ways that will appeal to a broad spectrum of buyers. It involves creating a product that is perceived as being unique throughout the industry. The emphasis can be on brand image, proprietary technology, special features, superior service, a strong distributor network or other aspects that might be specific to your industry.

On the use of differentiation strategy, 67% of the credit card providers find this strategy relevant to their banks while 33% do not use this strategy in their banks. This means that differentiation strategy finds favour with majority of the banks and this according to the respondents is because most of these cards serve almost the same purpose and credit card providers distinguish them based on differentiation in an effort to attract their clientele.

Cost Leadership strategy

This strategy is based on the concept that you can produce and market a good quality product or service at a lower cost than your competitors. Striving to achieve lower overall costs than rivals and appealing to a broad spectrum of customers, usually by underpricing rivals. These low costs should translate to profit margins that are higher than the industry average.

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
<th>%</th>
<th>%</th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differentiation strategy</td>
<td>6</td>
<td>3</td>
<td>9</td>
<td>67%</td>
<td>33%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Cost Leadership strategy</td>
<td>9</td>
<td>0</td>
<td>9</td>
<td>100%</td>
<td>0</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Best Cost Provider strategy</td>
<td>7</td>
<td>2</td>
<td>9</td>
<td>78%</td>
<td>22%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Focus based on low cost strategy</td>
<td>8</td>
<td>1</td>
<td>9</td>
<td>89%</td>
<td>11%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Focus based on differentiation strategy</td>
<td>9</td>
<td>0</td>
<td>9</td>
<td>100%</td>
<td>0</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research data
The cost leadership strategy usually targets a broad market. 100% of the respondents concurred that cost leadership strategy is being extensively applied in their places of work. Some of the ways in which these credit card providers acquire cost advantages according to the respondents include improving process efficiencies, gaining unique access to a large source of lower cost materials, optimal outsourcing and vertical integration decisions, or avoiding some unnecessary costs altogether.

4.4.3 Best cost provider strategy

This strategy gives customers more value for their money by incorporating good to excellent product attributes at a lower cost than rivals; the target is to have the lowest (best) costs and prices compared to rivals offering product with comparable attributes.

On the use of best cost provider strategy 78% of the respondents said this is so in their banks while a partly 22% of those polled do not use this strategy. According to the respondents who polled yes, this strategy gives customers more value for their money by incorporating the best product features at a relatively lower cost than competitors; the aim is to have the best costs and prices compared to competitors giving products with same features.

4.4.4 Focus based on low cost strategy

A focused strategy is based on low costs concentrating on a narrow buyer segment and out competing rivals by having lower costs than rivals and thus being able to serve niche members at a lower price. A firm pursuing a focus strategy is willing to service isolated geographic areas, to satisfy the needs of customers with special financing, inventory, or servicing problems; or to tailor the product to the somewhat unique demands of the small to medium sized customers.
Focus based on low cost strategy is a popular strategy that is used by 89% of the credit card providers with only 11% not using it. The same 89% of the respondents believe that for credit card providers to succeed with this strategy, company managers have to scrutinize each cost creating activity and determine what factors cause costs to be high or low. Then they have to use this knowledge to keep the unit cost of each activity low by pursuing cost efficiencies throughout the value chain.

4.4.5 Focus based on differentiation strategy

A focused strategy based on differentiation concentrates on a narrow buyer segment and seek to out compete rivals by offering niche members customized attributes that meet their tastes and requirements better than rivals products. This strategy is designed to address a particular segment of the marketplace, product form or cost management process.

From the respondents 100% of credit card providers in Kenya use this strategy. They argue that this popular strategy is based on the concept of serving a particular target in such an exceptional manner, that other credit card providers cannot compete. In most cases this strategy is used in addressing a substantially smaller market segment than others in the industry and because of minimal competition the profit margins can be very high.
4.5 The success of generic strategies

Table 4.6: The success of generic strategies

<table>
<thead>
<tr>
<th>Generic Strategies</th>
<th>N</th>
<th>Range</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differentiation strategy</td>
<td>9</td>
<td>2.00</td>
<td>3.00</td>
<td>5.00</td>
<td>3.8889</td>
<td>.78174</td>
</tr>
<tr>
<td>Cost leadership strategy</td>
<td>9</td>
<td>2.00</td>
<td>3.00</td>
<td>5.00</td>
<td>4.3333</td>
<td>.70711</td>
</tr>
<tr>
<td>Best cost provider strategy</td>
<td>9</td>
<td>2.00</td>
<td>3.00</td>
<td>5.00</td>
<td>4.0000</td>
<td>.70711</td>
</tr>
<tr>
<td>Focus based on low cost strategy</td>
<td>9</td>
<td>2.00</td>
<td>3.00</td>
<td>5.00</td>
<td>4.1111</td>
<td>.78174</td>
</tr>
<tr>
<td>Focus based on differentiation strategy</td>
<td>9</td>
<td>2.00</td>
<td>3.00</td>
<td>5.00</td>
<td>4.5556</td>
<td>.72648</td>
</tr>
<tr>
<td>Valid N</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research statistics

Based on table 4.5 above, focus based on differentiation strategy is ranked as the first most successful strategy with a mean of 4.5556. This means this strategy is mostly applicable in the commercial banks. Cost leadership strategy is the second most successful strategy with a mean of 4.3333 according to the respondents. The third strategy with a mean of 4.1111 is focus based on low cost strategy. Best cost provider strategy received a mean of 4.1111 and comes fourth as the most successful strategies in use by credit card providers in Kenya.

Differentiation though most commonly used is ranked fifth most successful with a mean of 3.8889. However, all these strategies are considered highly in the industry as all of them received a rating of at least 3.0000 out of a possible maximum of 5.0000 thereby resulting in a range of 2.00 which means the difference between them is minimal.
4.6 Grand Strategies

Table 4.7: Grand strategies

<table>
<thead>
<tr>
<th>Grand Strategies</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
<th>%Yes</th>
<th>%No</th>
<th>%Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Penetration strategy</td>
<td>6</td>
<td>3</td>
<td>9</td>
<td>67%</td>
<td>33%</td>
<td>100%</td>
</tr>
<tr>
<td>Market development strategy</td>
<td>5</td>
<td>4</td>
<td>9</td>
<td>56%</td>
<td>44%</td>
<td>100%</td>
</tr>
<tr>
<td>Product development strategy</td>
<td>7</td>
<td>2</td>
<td>9</td>
<td>78%</td>
<td>22%</td>
<td>100%</td>
</tr>
<tr>
<td>Geographic expansion strategy</td>
<td>8</td>
<td>1</td>
<td>9</td>
<td>89%</td>
<td>11%</td>
<td>100%</td>
</tr>
<tr>
<td>Diversification strategy</td>
<td>5</td>
<td>4</td>
<td>9</td>
<td>56%</td>
<td>44%</td>
<td>100%</td>
</tr>
<tr>
<td>Chain integration strategy</td>
<td>8</td>
<td>1</td>
<td>9</td>
<td>89%</td>
<td>11%</td>
<td>100%</td>
</tr>
<tr>
<td>Entry and control strategy</td>
<td>7</td>
<td>2</td>
<td>9</td>
<td>78%</td>
<td>22%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Research data

4.6.1 Penetration strategy

Penetration strategies work from a base of existing products and existing markets, seeking to penetrate the market by increasing the bank’s share of it. Banks trading in credit cards are always trying to expand sales with no fundamental change in product or market.

Penetration strategy is being used by 67% of the credit card providers in Kenya, 33% though does not find this strategy useful. Penetration strategies work from based on existing products and existing markets, seeking to penetrate the market by increasing the bank’s share. According to the 67% respondents this is done by straight expansion or by the takeover of existing competitors. The influence of this strategy includes the ability to assess market needs, knowledge of buyer behaviours, customer price sensitivity, and effectiveness of promotion.
4.6.2 Market development strategy

This is about promoting existing products in a few markets in effect broadening the scope of the business by finding new markets segments, perhaps serving even new channels. Product substitution is a particular case of market development where uses for a product are promoted that enables it to substitute for other products.

Market development strategy is not popularly used by credit providers in Kenya; this is evident from the response received where only 56% of the respondents polled yes while 44% polled no. Market development is a strategy that allows credit card providers in Kenya to practice a form of concentrated growth by identifying new users for already existing products and new defined markets. In most cases changes in media selection, promotional appeals, and distribution are used to initiate this market development effort. The implication of this failure by credit card providers to embrace this strategy is reduction in new customers willing to use credit cards.

4.6.3 Product development strategy

Majority of credit card providers in Kenya uses this strategy evident by the 78% response of yes, only 22% respondents no for this strategy. Respondents argued that commercial banks prefer to establish the needs of consumers first before developing the products. They want to have a customer driven product that will be easily accepted in the market hence the reason for favouring this strategy.
4.6.4 Geographic expansion strategy

This strategy of geographic expansion involves locating different business functions in different places. In fact, it is sometimes referred to as a global strategy. Credit card providers in Kenya consider this strategy as an important avenue that leads to increased market share. 89% of the respondents have a lot of trust in this strategy while a partly 11% of the respondents does not see any value in this strategy. Those depending on this strategy argue that extending to uncovered geographical location will help create a new market that has not been accessed.

4.6.5 Diversification strategy

Diversification refers to the entry into some business not in the same chain of operation. It may be related to some distinctive competence or asset of the core business itself; it can also be unrelated or conglomerate, diversification.

Diversification strategy is not widely applicable by credit card providers in Kenya, this is because only 56% of them polled yes while 44% polled no. This means that credit card providers opt for other strategies other than diversification since it is difficult to diversify what a credit card can do. According to the respondents diversification is not favourable because the credit card holder has the final say on what s/he wants the card to contain.

4.6.6 Chain integration strategy

Chain integration can be achieved by internal development or acquisition. In other words, an organization can enter a new business by developing it itself or by buying an organization already in that business. Both internal development and acquisition involve complete ownership and formal control of the diversified business.
This strategy received 89% yes polls meaning it is one of the widely used strategies by credit card providers in Kenya. Only 11% of credit card providers do not use it. Chain integration strategy provides commercial banks with an avenue to extend their operating chains downstream or upstream, within their own operations. By choosing this strategy credit card providers in Kenya are looking out for the weak players so that they acquire their stake in the market.

4.7 The success of grand strategies

Table 4.8: The success of grand strategies

<table>
<thead>
<tr>
<th>Grand Strategies</th>
<th>N</th>
<th>Range</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Penetration strategy</td>
<td>9</td>
<td>2.00</td>
<td>3.00</td>
<td>5.00</td>
<td>3.78</td>
<td>.67</td>
</tr>
<tr>
<td>Market development strategy</td>
<td>9</td>
<td>2.00</td>
<td>3.00</td>
<td>5.00</td>
<td>3.78</td>
<td>.67</td>
</tr>
<tr>
<td>Product development strategy</td>
<td>9</td>
<td>2.00</td>
<td>3.00</td>
<td>5.00</td>
<td>4.11</td>
<td>.61</td>
</tr>
<tr>
<td>Geographic expansion strategy</td>
<td>9</td>
<td>2.00</td>
<td>3.00</td>
<td>5.00</td>
<td>4.33</td>
<td>.71</td>
</tr>
<tr>
<td>Diversification strategy</td>
<td>9</td>
<td>2.00</td>
<td>3.00</td>
<td>5.00</td>
<td>3.78</td>
<td>.83</td>
</tr>
<tr>
<td>Chain integration strategy</td>
<td>9</td>
<td>2.00</td>
<td>3.00</td>
<td>5.00</td>
<td>4.00</td>
<td>.71</td>
</tr>
<tr>
<td>Valid N</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research data

According to table 4.7 above respondents ranked geographical expansion strategy as the most successful with a mean of 4.3333. Product development strategy came second with a mean of 4.1111 according to the respondents while chain integration strategy is third with a mean of 4.0000. Lastly penetration strategy, diversification strategy and market development strategy are all ranked fourth most successful grand strategies with a mean of 3.7778 each. Just like generic strategies these grand strategies had a minimal range of 2.00, this means all of them have a high degree of success with the least successful one scoring a mean of 3.7778 out of a possible 5.0000.
### 4.8 Challenges facing banks

**Table 4.9: Challenges facing banks**

<table>
<thead>
<tr>
<th>Challenges</th>
<th>N</th>
<th>Range</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Huge capital requirement</td>
<td>9</td>
<td>2.00</td>
<td>1.00</td>
<td>3.00</td>
<td>2.2222</td>
<td>.66667</td>
</tr>
<tr>
<td>Organizational structure</td>
<td>9</td>
<td>2.00</td>
<td>1.00</td>
<td>3.00</td>
<td>1.8889</td>
<td>.60093</td>
</tr>
<tr>
<td>Effective systems and controls</td>
<td>9</td>
<td>1.00</td>
<td>1.00</td>
<td>2.00</td>
<td>1.5556</td>
<td>.52705</td>
</tr>
<tr>
<td>Meeting quantitative targets</td>
<td>9</td>
<td>2.00</td>
<td>1.00</td>
<td>3.00</td>
<td>1.7778</td>
<td>.83333</td>
</tr>
<tr>
<td>Distribution cost</td>
<td>9</td>
<td>2.00</td>
<td>1.00</td>
<td>3.00</td>
<td>2.2222</td>
<td>.83333</td>
</tr>
<tr>
<td>Marketing ability</td>
<td>9</td>
<td>2.00</td>
<td>1.00</td>
<td>3.00</td>
<td>2.1111</td>
<td>.78174</td>
</tr>
<tr>
<td>Creativity and innovation</td>
<td>9</td>
<td>2.00</td>
<td>1.00</td>
<td>3.00</td>
<td>1.6667</td>
<td>.70711</td>
</tr>
<tr>
<td>Corporate reputation</td>
<td>9</td>
<td>2.00</td>
<td>1.00</td>
<td>3.00</td>
<td>1.7778</td>
<td>.83333</td>
</tr>
<tr>
<td>Staff training</td>
<td>9</td>
<td>2.00</td>
<td>1.00</td>
<td>3.00</td>
<td>2.3333</td>
<td>.70711</td>
</tr>
</tbody>
</table>

Source: Research data

A number of challenges face commercial banks offering credit cards in Kenya, according to the respondents. Staff training with a mean of 2.3333 is a major challenge followed by huge capital requirement and distribution cost with a mean of 2.2222. The fourth challenge with a mean of 2.1111 is the ability of commercial banks to market these products. The structure of organization is also an issue coming fifth as a challenge with a mean of 1.8889.

Corporate reputation and meeting quantitative targets come in as the sixth challenge with a mean of 1.7778. The second last challenge is creativity and innovation with a mean of 1.6667 while effective systems and controls is the least worry for commercial banks as it has a low challenge as evident by its mean of 1.5556.
4.9 Challenges facing the industry

Table 4.10: Challenges facing the industry

<table>
<thead>
<tr>
<th>Challenges</th>
<th>N</th>
<th>Range</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frauds</td>
<td>9</td>
<td>2.00</td>
<td>1.00</td>
<td>3.00</td>
<td>1.556</td>
<td>.72648</td>
</tr>
<tr>
<td>Limited usage points</td>
<td>9</td>
<td>2.00</td>
<td>1.00</td>
<td>3.00</td>
<td>1.778</td>
<td>.66667</td>
</tr>
<tr>
<td>Lack of credit card culture</td>
<td>9</td>
<td>2.00</td>
<td>1.00</td>
<td>3.00</td>
<td>2.333</td>
<td>.70711</td>
</tr>
<tr>
<td>Restrictive policies and regulations</td>
<td>9</td>
<td>2.00</td>
<td>1.00</td>
<td>3.00</td>
<td>1.778</td>
<td>.83333</td>
</tr>
<tr>
<td>Poor communication network</td>
<td>9</td>
<td>2.00</td>
<td>1.00</td>
<td>3.00</td>
<td>2.222</td>
<td>.83333</td>
</tr>
<tr>
<td>Valid N</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research data

Table 4.9 above gives the rankings of challenge facing the industry, lack of credit card culture in Kenya is the biggest challenge facing the industry. It is evident from the mean of 2.3333 that the respondent gave it. The second challenge facing the industry is poor communication with a mean of 2.2222 while limited usage of points and restrictive policies and regulations coming third with a mean of 1.7778 each. Lastly frauds are less restrictive challenge in the industry having received a mean of 1.5556 out of a possible 3.0000.
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter gives a brief summary, conclusion and recommendations on competitive strategies used by commercial banks in providing credit card services in Kenya. A sample of 9 respondents' mainly managers in credit card sections was interviewed to capture the relevant data required.

5.2 Summary

In relation to the first objective, to establish the competitive strategies being employed by credit card industry in Kenya, the study documented that both generic and grand strategies are being used by commercial banks providing credit card services in Kenya. The following generic strategies are used; cost leadership is one of the most popular one among these commercial banks with all the respondents that is 100% indicating that it is being applied in their respective banks. Focus based on differentiation was also got 100% polls passing as the most applicable strategy as well. Best cost provider, differentiation and focus based cost strategies are also highly rated receiving 78%, 67% and 89% respectively. Grand strategies such as market development strategy, penetration strategy, product development strategy, geographical extension strategy, diversification, chain integration and entry and control strategy are also at play in these commercial banks; however their success depends on the competitive environment at a particular point in time.
The second research objective was: *To determine the challenges facing the implementation of strategies within the firm and in the industry.* This study established that a number of challenges exist both within the commercial banks under study and in the industry as a whole. The challenges within the banks include; lack of staff training which received high rating from the respondents with a mean of 2.3333 followed by huge capital requirement and distribution cost with a mean of 2.2222. The ability of commercial banks to market their products is also a challenge that is prevalent coming fourth with a mean of 2.1111. Others challenges which are not so severe include the effect of the organization’s structure with a mean of 1.8889, corporate reputation and meeting quantitative targets a mean of 1.7778. The challenge of creativity and innovation with a mean of 1.6667 is less of a worry while effective systems and controls is the least challenge for commercial banks as evident by its mean of 1.5556. In the industry as a whole challenges such as lack of credit card culture in Kenya is the biggest challenge evident from its mean of 2.3333. Another challenge facing the industry is poor communication with a mean of 2.2222 while limited usage of points and restrictive policies and regulations coming third with a mean of 1.7778 each. Lastly frauds are less restrictive challenge in the industry having received a mean of 1.5556.

5.3 Conclusions

There are nine commercial banks in Kenya offering a total of 29 credit cards. These credit cards providers serve a target market consisting of students, salaried employees, business people and companies. In an effort to outdo each other in this competitive market commercial banks engage different generic and grand strategies. Among the generic strategies are; differentiation, cost leadership, best cost provider, focus based on differentiation and focus based on low cost. The success of these strategies vary depending on different operating environment, for instance focus
based on differentiation strategy is ranked the most successful of all the generic strategies while
differentiation strategy though mostly used by all the credit card providers is ranked the least
successful.

The grand strategies in use include; market development strategy, penetration strategy, product
development strategy, geographical extension strategy, diversification, chain integration and
entry and control strategy are also at play in these commercial banks. In the case of grand
strategies geographical extension strategies, chain integration strategies and product development
are ranked as the most successful while diversification, penetration and market development
strategies are least successful according to the respondents. A number of challenges were also
identified, those facing these credit card providers and those challenges facing the industry as a
whole. The challenges within the banks include; lack of staff training which received high rating
from the respondents by huge capital requirement and distribution cost. The ability of
commercial banks to market their products is also a challenge that is prevalent within the
individual banks. Others challenges which are not so severe include the effect of the
organization’s structure, corporate reputation and meeting quantitative targets. The challenge of
creativity and innovation is less of a worry while effective systems and controls is the least
challenge for commercial banks. In the industry the biggest challenge is lack of credit card
culture in Kenya. Poor communication and restrictive policies and regulations are also hindering
the success of credit card provision in Kenya. However frauds are less prevalent in the industry
hence is the least considered challenge.
5.4 Limitations of the Study

This study interviewed only the credit card section management of the nine commercial banks under study who were well conversant with competitive strategies being used in their banks. In a number of instances the researcher had to administer the questionnaire personally to them explaining the terms and concepts as related to competitive strategies to be able to get reliable information in order for valid conclusions to be made. This was quite a tedious and demanding exercise.

The researcher would have preferred to use a larger sample to acquire more information on credit cards but it was unattainable considering the limited time and budget constraints.

5.5 Suggestions for Further Research

The researcher feels that a number of aspects need further research in future. The dimension of competition in the industry needs to be investigated further by other scholars to establish if there are other strategies at play other than generic and grand strategies.

The researcher has only limited himself to credit cards only leaving out other products provided by the commercial banks under study. These other products may be in a way having a relationship with credit cards hence influencing their marketability. Other factors that determine the success of competitive strategies in commercial banks in Kenya have not been fully addressed by the research. An investigation therefore needs to be done on what other factors may determine the success and failures of competitive strategies in the banking industry as a whole. Lastly a more detailed analysis of competitive strategies in other industries is also necessary in order to determine their contribution to competitive advantage.
REFERENCES


Okoth Z. (2005) Competitive Strategies employed by the Sugar Manufacturing Firms in Kenya, University of Nairobi: Unpublished MBA project


APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

UNIVERSITY OF NAIROBI,
SCHOOL OF BUSINESS,
P.O. Box 30197,
NAIROBI.

Dear Sir/ Madam,

RE: A SURVEY OF THE COMPETITIVE STRATEGIES ADOPTED BY CREDIT CARD PROVIDERS IN KENYA

I am a postgraduate student undertaking a Master of Business Administration Degree at the School of Business, University of Nairobi. I am currently carrying out a research on a Survey of the Competitive Strategies Adopted by Credit Card Providers in Kenya.

My approach to this survey is both consultative and collaborative and ensures that it causes minimum disruption to your schedule of activities. I kindly request you to provide the required information by responding to the questions in the questionnaire. The information required is purely for academic purposes and will be treated in the strictest confidentiality. A copy of the research project will be made available to you upon request. I will appreciate your co-operation in this academic exercise.

Thanking you in advance.

Yours faithfully,

Chang’orok, Joseph
School of Business,
University of Nairobi
APPENDIX II: STUDY QUESTIONNAIRE

Part A. Personal Information:

1. Name (Optional) ..............................................................................................................

2. Sex: Male [ ] Female [ ]

3. Age: Below 35 [ ] 35-45 [ ] 46 and Above [ ]

4. Highest level of Education.............................................................................................

5. Name of organization you are working in.....................................................................

6. Work experience in years in your organization? Below 5 [ ] 5-15 [ ] Over 15 [ ]

7. Job designation: Director [ ] Head of department [ ] senior manager [ ] Manager [ ]

Part B. Dimensions of Competition

8. Please list the credit card (S) provided by your organization in the spaces below.
   i) ................................................
   ii) ................................................
   iii) ................................................
   iv) ................................................
   v) ................................................

9. What kind of clientele you target
   Students [ ]
   Business men [ ]
   Companies [ ]
   Employees (salaried) [ ]
   Other (Specify) ..........................................

45
10. What kind of challenges do you face from your competitors? Please list them..


Part C. Competitive Strategies

11. Which of these generic strategies has been used by your company? Tick where appropriate and give reasons why this strategy is preferred in your bank.

<table>
<thead>
<tr>
<th>Strategies used</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differentiation strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost Leadership strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Best Cost Provider strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Focus based on low cost strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Focus based on differentiation strategy</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Reasons........................................................................................................

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

12. How would rank the success of each of these strategies? Tick where appropriate.

<table>
<thead>
<tr>
<th></th>
<th>Most successful</th>
<th>Successful</th>
<th>Neutral</th>
<th>Average</th>
<th>Least successful</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differentiation strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost Leadership strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Best Cost Provider strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Focus based on low cost strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Focus based on differentiation strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Part D. Grand Strategies

13. Which of these grand strategies does your organization use? Tick as appropriate and give reasons why they are preferred.

<table>
<thead>
<tr>
<th>Grand Strategies</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Penetration strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market development strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product development strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Geographic expansion strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diversification strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chain integration strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Reasons: ........................................................................................................
........................................................................................................
........................................................................................................

14. How would rank the success of each of these strategies? Tick where appropriate.

<table>
<thead>
<tr>
<th>Grand Strategies</th>
<th>Most successful</th>
<th>Successful</th>
<th>Neutral</th>
<th>Average</th>
<th>Least Successful</th>
</tr>
</thead>
<tbody>
<tr>
<td>Penetration strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market development strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product development strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Geographic expansion strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diversification strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chain integration strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
15. Which of the following challenges below are you facing in implementation of strategies within the firm? Tick the appropriate impact level

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Heavy impact</th>
<th>Moderate impact</th>
<th>Low impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Huge capital requirement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organizational structure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effective systems and controls</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Meeting quantitative targets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution cost</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing ability</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creativity and innovation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate reputation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff training</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Any other (please specify)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

16. Which challenges do you face as an industry? Tick the appropriate impact level

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Heavy impact</th>
<th>Moderate impact</th>
<th>Low impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frauds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Limited usage points</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of credit card culture</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restrictive policies and regulations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poor communication network</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Any other (please specify)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Many thanks for completing this questionnaire.