ANALYSIS OF THE ATTRACTIVENESS OF THE COMMERCIAL RADIO INDUSTRY IN KENYA

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A Management Research Project submitted in partial fulfillment of the requirements for the award of Master in Business Administration Degree, University of Nairobi

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DECLARATION

This research project is my original work and has not been presented for a degree in any other University.

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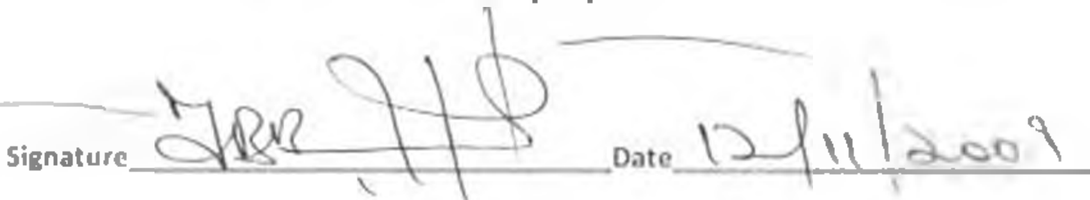
This research project has been submitted for examination with my approval as the University supervisor



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DEDICATION

This research project is dedicated to my wonderful parents, Peter and Grace Ogangah without whose support and belief in me, I wouldn't have achieved my MBA.

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ABBREVIATIONS AND ACRONYMS

MOA – Media Owners Association

CCK – Communications Commission of Kenya

APA – Advertisers Practioners' Association

MCK - Media Council of Kenya

KBC – Kenya Broadcasting Corporation

TV – Television

FM – Frequency Module

AM – Amplitude Module

KNA – Kenya News Agency

KTN – Kenya Television Network

NTV – Nation Television

KIMC - Kenya Institute of Mass Communication

VOK – Voice of Kenya

ICT – Information, Communication and Technology

KUJ – Kenya Union of Journalists

BBC – British Broadcasting Services

NGO – Non Governmental Organizations

KShs – Kenya Shillings

PESTEL – Political, Economic, Social, Technological, Environmental and Legal

SWOT – Strength, Weaknesses, Opportunities, Strength

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ABSTRACT

The commercial radio industry in Kenya has undergone tremendous growth since liberalization in the late 1990s. This was after a long period when the government owned KBC was the sole radio station in the country. Immediately after liberalization, two commercial stations were launched with the KBC owned Metro being the first followed by Metro East, now East FM and Capital FM, the first privately owned commercial station to launch in Kenya Liberalization led to growth in number of players and revenue and the Industry is now attracting a lot of new investments. The study aimed at analyzing the attractiveness of the industry to new firms using Porter's five forces framework as a basis. The data used for this study was collected from commercial radio stations currently in operation using a structured self filling questionnaire. The target population consisted of all commercial stations currently in operation. However, purposeful sampling was used to select a list of 30 firms to be surveyed with a response rate of 37%. Results of the study suggest that the commercial radio industry in Kenya is still attractive to new investors even though acquisition of a frequency remains the key barrier to entry for new firms. It was also discovered that industry rivalry coupled with the strong bargaining power of buyers were the two key factors with the highest unfavorable impact on the attractiveness of the commercial radio industry in Kenya. It was also found in the study that, radio as an advertising media still had very little threat from other media as substitutes including TV and print One limitation of the study was that it used a relatively small sample hence there could be some element of bias. It is recommended that further studies be done using the modified 6 forces including government which seems to have a high influence on the industry despite liberalization

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

All firms operate within an environment and depend on the environment for their inputs and outputs. The external environment consists of all the conditions and forces that affect firms' strategy decisions and define its competitive positioning in the market. According to Pearce and Robinson (1997), in order for firms to achieve their goals and objectives, it is necessary for them to adjust to their environment. Managers have to continuously analyze changes in the environment so as to develop appropriate strategies to mitigate them and achieve their overall objectives and satisfy shareholder needs. Strategic analysis involves understanding the different forces affecting a firm and its choices of strategy. It is the first step in the process of choosing the strategy to pursue for a firm to achieve its objectives and satisfy its owner's needs.

In early 1990s, the Kenyan government liberalized the broadcasting sector and started to license private firms to launch their radio and TV stations in Kenya. The media sector is controlled and regulated by the government through the Communication Commission of Kenya (CCK) headed by a Director General and who are in-charge of policy formulation, allocation and control of frequencies and regulating the whole media, communication and ICT sectors. There is also the recently constituted Media Council of Kenya which is the body mandated to spearhead self-regulation by the sector. Due to the increasing need by private firms in the sector to protect their industry from adverse effects and to bargain as an industry, investors in the sector formed the Media Owners Association as an alliance of media owners in Kenya to fight for the rights of investors in the industry. Other industry associations include the Advertising Practitioners Association (APA) and the Kenya Union of Journalists (KUJ).

The industry is composed of firms which can be called fully integrated media houses providing integrated media platform such as television, radio, print, web etc such as Nation Media group and lately Standard Group. There are also other firms which provide some of the media platforms but not all such as Citizen Group which has radio and TV, Radio Africa Ltd which has print and radio and KBC the government owned national broadcaster which has radio and TV. There are also smaller firms which own only one type of media whether it is it radio, TV, print or display. All these however still fall under media or at times referred to as media houses

1.1.1 Attractiveness of the Commercial Radio Industry in Kenya

The attractiveness of an industry may be determined by its potential future profitability while profitability of a firm could be determined by various factors such as the competitive nature of the industry, bargaining power of suppliers and customers amongst other factors. In today's highly competitive business environment, firms must engage in strategic planning that defines its objectives and analyses both the internal and external environment so as to formulate appropriate business strategy. In conducting an environmental scan, firms cover the following components, internal analysis of the firm, an analysis of the firms industry and an analysis of the firm's external macro-environment. The internal analysis can identify a firm's strength and weaknesses while external analysis indicates opportunities and threats. Industry analysis can be performed by using Michael Porters 5 forces framework. A firm can then use information from the environmental scan to match its strength with opportunities that it identifies while working on improving its weaknesses and limiting the impact of external threats.

According to the Communications Commission of Kenya, as at September 2009 there were 90 operational radio stations in Kenya and over 240 broadcasting frequencies issued so far. This represents a phenomenal growth in the number of stations in the last 10 years which stood at only 3 as at the year 2000. However this number includes both commercial and non commercial stations such as NGO and church sponsored stations. In terms of revenue, total revenue generated from advertising to commercial radio stations was estimated at KShs 10 billion in 2008 by media Monitoring firm, Steadman Synnovate (Based on actual broadcasting rate card without reflecting discounts and hence may not reflect actual revenue). Using Michael Porters 5 forces framework, this study aims at evaluating the increasing attractiveness of the commercial radio industry to new investors.

The increased interest from potential investors has attracted more players to the industry leading to high levels of rivalry characterized by competitive strategies such as differentiation with branding coupled with market segmentation and niche targeting leading to a highly fragmented market. An industry analysis of the sector would add value to strategic planning in the industry by identifying forces impacting strategy in the industry and how managers or investors can plan on how to handle challenges to this increasingly lucrative market. Broadcasting companies have had to develop competitive strategies to gain or maintain competitive positions in the market allowing them to attract advertisement revenue hence profits. According to Porter, strategy is about being different and competitive. It involves deliberately choosing to carry out a firms activities differently so as deliver a unique mix of values

1.1.2 Commercial Radio Industry in Kenya

Johnson and Scholes, (2006) defined an industry as a group of firms producing the same principle product or more broadly, a group of firms producing products that are close substitutes to each other. Media firms in Kenya, provide news, information and entertainment services through broadcasting, print, display etc while earning revenue through advertising, promotions and informatials. Media industry in Kenya consists of print media, publishing, broadcasting, outdoor media, and lately the IT based media platforms such as the web, SMS and mobile media. Advertising market consists of agencies and advertisers procuring advertising for their products and services including audio, video, print and display advertising

Commercial FM stations refer to privately owned radio broadcasters who provide information and broadcasting through FM radio frequencies and in return earn revenue through on-air advertisements. Currently there are approximately 90 operational radio stations out of the 240 already licensed by CCK as at 2008. Growth in the sector has led to segmentation of the market with new radio stations targeting specific social income groups, age and ethnic backgrounds, groups with varied interests etc. Old broadcasters have also re-formatted in-order to target specific segments of the market and to develop their own niche

Technically radio broadcasters are categorized according to the frequency mode in which they broadcast. AM (amplitude modulation for medium wave), mainly government and the FM (frequency modulation) stations where all the commercial radio stations fall into. Commercial radio stations can further be segmented according to the audience they serve such as main stream stations including Kiss FM, Capital FM, Easy FM, KBC, Citizen FM, Metro FM, Hot 96 FM etc. Main feature of these stations is that they mostly broadcast in both Swahili and English and are mainly based in urban areas. They play a variety of music and are driven by news and entertainment. Other segments include religious stations pioneered by Family FM and have increased to include Hope FM, Radio Waumini, and IQRA FM etc. They are mainly driven by broadcasting religious content and music and are mostly sponsored by religious groups and churches. Vernacular stations started in the late 1990s and were pioneered by Kameme FM

Today the numbers of vernacular stations have increased to over 10 and more are still being formed with a majority owned by the Citizen group which has used vernacular language to differentiate its stations and attract revenue Their main format is broadcasting in vernacular languages with entertainment and music targeting specific ethnic groups Some of these stations include Kameme FM, Inooro FM, Coro FM, Ramogi FM, Lake Victoria FM, Musyi FM, Mbaito FM They at times cover specific geographical regions where their language of broadcast is mostly spoken The last audience segment is composed of community radio stations mostly funded by NGO's and donors. These mainly serve social interests of the various communities they broadcast to and are not commercial in their operations. They mainly carry social messages to their audience and include stations such as Ghetto FM

The size of the broadcasting media industry can be looked at in two forms, number of players and size of revenue generated. In the last 10 years the media industry and especially the broadcasting media industry has seen tremendous growth both in terms of players, revenue and size. In terms of number of players, the sub-sector has seen TV players grow from two broadcasting stations in 1990 to currently over ten satellite and free to-air stations. This growth could be attributed to a variety of factors chief among them being the liberalization of the sector and revenue growth over the years which has in turn attracted private investments into the sub-sector

Radio and television broadcasters provide advertisers with reach to audiences attracted by free to air audio and video programming, although they compete with other forms of media for customer eye and ears and thus advertising revenue. To stay in business, broadcasters must satisfy subscribers, viewers of listeners by providing desirable programming. Radio and TV typically get about 99% of their revenue from advertising Therefore, to understand their market, one has to understand the advertising spend, share and factors driving them

The market value in the media industry reflects income generated to media firms or advertising agencies for provision of such services The radio market consists of government controlled and private commercial stations while the TV market consists of all terrestrial, cable and satellite broadcasters of digital and analog television programming The market is valued as the revenues generated by broadcasters through advertising, licensing and subscriptions. Frequency allocation and licensing is done by the government through its subsidiaries while advertising revenue is sought by firms from clients either directly or through advertising agencies. The Information and Broadcasting sub sector includes gathering and dissemination of news and information through radio and television, training of mass media personnel, information marketing, advertising and image building

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1.2 Statement of the Problem

This study is informed by the high growth in the number of commercial radio stations that have entered the market in the last ten years and intends to investigate whether the attractiveness of the industry to new investors is driven by any structural drivers. It intends to utilize industry analysis techniques that would best try and explain the high interest of existing and new investors to start commercial radio stations. A review of previous research done shows that there is no study which has been done so far to determine the reason for the high growth of new entrants to the commercial radio industry in Kenya.

However, a number of studies covering the media and the commercial radio sub-sector have been carried out in the past including Sholler, (1999) who looked at the nature and factors influencing collaborative arrangement in Kenya's media industry, Kipkorir, (2001) looked at competitive intelligence practiced by FM radio stations in Kenya while Mungai, (2006) looked at competitive strategies adopted by mainstream daily print media firms in Kenya. Other researchers (Chepkwony, 1992; Gacenga, 2000; Rabah, 2000; Mwaura 2001 et lal) looked at various strategic issues affecting the media industry such as strategic planning, strategic responses to competition and competitive intelligence by radio stations.

Various researchers have done studies on using Porters five forces for industry analysis including Karanja, (2002); Gitonga, (2003); Nyale, (2007) and Nganga, (2007). This study intends to analyze the attractiveness of the commercial radio industry which has led to the tremendous growth in number of players and competitors. It will utilize Porters five forces in conducting this analysis. It intends to fill a gap in knowledge on how structurally attractiveness the commercial radio industry in Kenya is.

1.3. Research Objectives

The study aims at establishing the level of attractiveness of the commercial radio industry in Kenya

1.4 Importance of the Study

With the increased competition in the commercial radio sub sector and the intense rivalry for audience and revenue from advertising, the study will not only help new firms which are joining or will be joining the industry but also existing firms on the future of the industry especially its competitive nature given the increase in number of firms entering the sector

The survey will form one of the bases for analyzing the industry and can be used with other industry analysis methodologies to come up with a benchmark for reviewing competitiveness and success factors relating to commercial radio stations in Kenya It will also be beneficial to industry associations and regulators such as CCK, APA, MOA, and MCK in ensuring they come up with appropriate and informed policies on the sector.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Strategic management has been around since the 1970s. David (2001) viewed strategic management as the art and science of formulating, implementing and evaluating cross functional decisions that enable an organization to achieve its objectives. Managers have to continuously evaluate changes in their environment so as to develop appropriate strategies to deal with their fast changing macro environment. This literature review looks at the research literature done by various authors that have contributed to the body of knowledge on analyzing the attractiveness of an Industry. It looks at literature by renowned authors such as Michael Porter and others whose theories still inform studies on strategic management.

2.2 Industry Analysis

There are various tools developed that can be used by managers to evaluate changes in their environment which may impact on their organizations. According to Johnson and Scholes. (2006) managers can use the PESTEL framework to evaluate how future changes in the political, economic, social, technological, environmental and legal environment may impact either positively or negatively on their organizations. These factors in the environment are referred to as Macro-environmental factors and may include demographics, government actions, labor markets etc

In analyzing the changes in their environment, managers also have to evaluate the industry in which they operate in as changes in the industry may also impact on their organizations. According to Johnson and Scholes, an industry is a group of firms producing the same principle product or services. There is need for managers to understand the interaction between their macro environment and their industry, as well as between their individual firms and the industry. There have been many tools developed to evaluate this relationship, some of these include the SWOT analysis model, the Boston Square Matrix, Ansoff's Matrix (1965), Porter's (1985) five forces model, Porters (1985) value chain analysis and the Strategic Groups analysis. Some of these models are better utilized in evaluating the internal environment of an organization while some are suited for analyzing an organizations macro-environment. These models have been criticized by other authors and modified versions suggested such as the addition of the 6th force to Porters five forces model which were named as complimentors which could include the government, stakeholders, share holders etc. However, the added forces have never been widely accepted with arguments that they could still fit into the original five forces. Due to this, the study intends to utilize the original Porters five forces framework with a belief that the complimentors would fit into the already defined forces.

2.3 Porter's Five Forces Framework

Porter's Five-Forces Analysis, which is a framework for industry analysis and business strategy development developed by Michael E. Porter of Harvard Business School in 1979. This analysis technique looks at five forces acting on companies within a market that impact on their profitability. Porter (1980a) defined the forces which drive competition, contending that the competitive environment is created by the interaction of five different forces acting on a business. In addition to rivalry among existing firms and the threat of new entrants into the market, there are also the forces of supplier power, the power of the buyers, and the threat of substitute products or services. Porter suggested that the intensity of competition is determined by the relative strengths of these forces. Understanding the nature of each of these forces gives organizations the necessary insights to enable them to formulate the appropriate strategies to be successful in their market (Thurlby, 1998). Mintzberg, (1990) in his work of creating an encyclopedia of strategic management located Porter in the "positioning school" of thought which advocates strategy formation as an analytical process. Porter (1980) placed the dynamic relationship between enterprise strategy and industry structure at the centre of his concept of 'competitive strategy'. He presented the possibility of 'selecting' a strategy based on a well-defined 'position' in the economic market-place backed-up by 'analysis' rather than 'prescription' (Ansoff 1965; Rumelt 1974).

These forces include the Bargaining power of customers – how much control do customers have on the prices that market players can charge?, Supplier power – how much control do suppliers have on the prices that market players need to pay for their raw materials etc?, New entrants - how likely is it that new companies will decide to start operating in the market?, Threat of substitutes – are there any alternative products that customers can buy in preference to those offered within the market (i.e. indirect competition rather than direct competition)?, and Rivalry – how intense is the rivalry between individual market players?. The stronger the force(s), the more difficult it is for a company in that market to remain profitable. The analysis is performed using a set of 'drivers' – factors that influence the strength of each force and is a powerful tool for analyzing an industry sector and its major players

However, this model can only be applicable in perfect markets or pure markets. It uses concepts developed in Industrial Organization economics to derive 5 forces that determine the competitive intensity and therefore attractiveness of a market. Attractiveness in this context refers to the overall industry profitability. An "unattractive" industry is one where the combination of forces acts to drive down overall profitability. A very unattractive industry would be one approaching "pure competition". Porter referred to these forces as the micro environment, to contrast it with the more general term macro environment. They consist of those forces close to a company that affect its ability to serve its customers and make a profit. A change in any of the forces normally requires a company to re-assess the marketplace. However, the overall industry attractiveness does not imply that every firm in the industry will return the same profitability

Firms are able to apply their core competences, business model or network to achieve a profit above the industry average. However, Newman *et lol* (1989) argues that the application of competitive strategy may not be that simple. He argues that firms in an industry may be faced with various competitive challenges such as structural challenges and economic challenges. Other competitive challenges were identified as regulatory issues imposed by the government, financial requirements and the firms owners. Competitive advantage is therefore at the centre of any strategies and firms have to decide on which competitive advantage it seeks to attain and position itself on (Johnson and Scholes, 2003).

2.4 Competitive Strategy

Today's strange, new business world needs an augmented model of industry and market analysis that reflects recent developments in industry dynamics, such as globalization, entrepreneurship, technological advances, and the internet Slater and Olson (2002). In 1980, Michael Porter introduced the Five Forces Model of Industry Competition and forever changed how firms and strategic managers view competitive environments. His basic premises were that the collective strength of five basic competitive forces determine the return on capital potential in an industry and influence the strategies available to firms in the industry. The competitive forces that he identified can be summarized as illustrated in *Appendix 1*.

According to Porter (1980), whenever these forces are intense as in certain industries such as airlines, textiles and hotels few firms earn attractive returns on investments and whenever these forces are weak such as in software and soft drinks, many firms are profitable. In analyzing the 5 forces, it is important to understand their underlying causes as this helps explain the industry's current profitability while providing a framework for anticipating and influencing competition (and profitability) over time. Industry structure should be as much a competitive concern to strategic managers as their company's own position in the market is. Understanding industry structure is also important in a firms strategic positioning.

Porter, (1980), states that the relationship of the five forces differs from industry to industry. In the market for commercial aircraft for example, he stated that fierce rivalry between dominant producers Airbus and Boeing and the bargaining power of the airlines that place huge orders for aircraft are strong, while the threat of entry, the threat of substitutes, and the power of suppliers are more benign. In the media advertising industry, the proliferation of substitute media platforms and the power of the advertisers and advertising agencies may be more important

The strongest competitive force determines the profitability of an industry and become the most important to strategy formulation. The weakest force, however, is not always obvious in its impact of the particular industry. For example, even though rivalry is often fierce in commodity industries, it may not be the factor limiting profitability. According Harvard Business Review (March, 2007), low returns in the photographic film industry, for instance, are the result of a superior substitute product—as Kodak and Fuji, the world's leading producers of photographic film, learned with the advent of digital photography. In such a situation, coping with the substitute product becomes the number one strategic priority

Industry structure grows out of a set of economic, technical and structural characteristics within and in the external environment of firms such as finance, firms owners etc that determine the strength of each competitive force. This literature review will examine each of these drivers, taking the perspective of an incumbent, or a company already present in the industry. These analyses can also be readily extended to understand the challenges facing a potential entrant.

2.5 Competition and its Challenges

The goal of much of business strategy is to achieve a sustainable competitive advantage for firms so as to maintain or gain higher profitability than their rivals. The resource based view of strategy emphasizes that a firm utilizes its resources and capabilities to create a competitive advantage that ultimately results in superior value creation. In analyzing competition one of the key elements is to ensure all current or potential substitute products are included as they could be a source of competitive rivalry at present or in the future hence affecting industry profitability

The media industry especially the subject of this research which is commercial radio stations provides entertainment and news while earning revenue from advertising. Due to media convergence and technological advancements, the industry is currently faced by many forms of indirect or direct substitute products including the internet/web, SMS, television, I-pods, mobile communicators, outdoor display etc. The model of pure competition implies that risk-adjusted rates of return should be constant across firms and industries. However, numerous economic studies have affirmed that different industries can sustain different levels of profitability; part of this difference is explained by industry structure. Radio stations in Kenya differentiate themselves by target market, coverage and pricing.

2.5.1. Threat of entry of new Firms

It is not only incumbent rivals that pose a threat to firms in an industry; the possibility that new firms may enter the industry also affects competition. In theory, any firm should be able to enter and exit a market, and if free entry and exit exists, then profits always should be nominal. Both potential and existing competitors influence average industry profitability. The threat of new entrants is usually based on the market entry barriers They can take diverse forms and are used to prevent an influx of firms into an industry whenever profits, adjusted for the cost of capital, rise above zero In contrast, entry barriers exist whenever it is difficult or not economically feasible for an outsider to replicate the incumbents' position (Porter, 1980b; Sanderson, 1998) The most common forms of entry barriers include (i) economies of scale, (ii) cost of entry including investment in technology, (iii) distribution channels and ease of access to competitors (iv) proprietary experience of existing firms such as contacts and expertise and (v) government legislation that may affect the competitiveness of an industry or firm and (vi) differentiation such as certain brands that may not be copied

In reality, however, industries possess characteristics that protect the high profit levels of firms in the market and inhibit additional rivals from entering the market referred to as barriers to entry. Barriers to entry are more than the normal equilibrium adjustments that markets typically make. For example, when industry profits increase, we would expect additional firms to enter the market to take advantage of the high profit levels, over time driving down profits for all firms in the industry. When profits decrease, we would expect some firms to exit the market thus restoring market equilibrium. Falling prices, or the expectation that future prices will fall, deters rivals from entering a market. Firms also may be reluctant to enter markets that are extremely uncertain, especially if entering involves expensive start-up costs These are normal accommodations to market conditions But if firms individually (collective action would be illegal collusion) keep prices artificially low as a strategy to prevent potential entrants from entering the market, such entry-deterring pricing establishes a barrier.

Barriers to entry are unique industry characteristics that define the industry. Barriers reduce the rate of entry of new firms, thus maintaining a level of profits for those already in the industry. From a strategic perspective, barriers can be created or exploited to enhance a firm's competitive advantage

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2.5.2. Intensity of Rivalry among Existing Firms

Kipkorir, (2001) identified research and at times espionage as some of the practices characterizing the competitive nature of the commercial radio industry in Kenya. In the traditional economic model, competition among rival firms drives profits to zero. But competition is not perfect and firms are not unsophisticated passive price takers. Rather, firms strive for a competitive advantage over their rivals. The intensity of rivalry among firms varies across industries, and strategic analysts are interested in these differences.

According to Porter, (1980), economists can measure rivalry by indicators of industry concentration. The Concentration Ratio (CR) is one such measure. A high concentration ratio indicates that a high concentration of market share is held by the largest firms - the industry is concentrated. With only a few firms holding a large market share, the competitive landscape is less competitive (closer to a monopoly). A low concentration ratio indicates that the industry is characterized by many rivals, none of which has a significant market share. These *fragmented* markets are said to be competitive. The concentration ratio is not the only available measure; the trend is to define industries in terms that convey more information than distribution of market share. Omamo (2004) identified intra-industry poaching of on-air staff as one of the characteristics of the competitive nature of the industry and the development of various incentives to retain and attract quality staff.

If rivalry among firms in an industry is low, the industry is considered to be disciplined. This discipline may result from the industry's history of competition, the role of a leading firm, or informal compliance with a generally understood code of conduct. In low-rivalry industries competitive moves must be constrained informally. When a rival acts in a way that elicits a counter-response by other firms, rivalry intensifies. The intensity of rivalry commonly is referred to as being cutthroat, intense, moderate, or weak, based on the firms' aggressiveness in attempting to gain an advantage. Gacenga, (2000) identified market segmentation and differentiation of radio products as one of the ways in which commercial radio stations have been defining the competitive nature of the industry. This is also evidenced by the increase in niche stations such as X FM serving the high end market, Citizen serving the low end mass market and East FM serving the Asian market.

2.5.3. Threat of Substitute Services

Porter (1980) refers to substitute products in other industries To the economist however, a threat of substitutes exists when a product's demand is affected by the price change of a substitute product A product's price elasticity is affected by substitute products - as more substitutes become available, the demand becomes more elastic since customers have more alternatives A close substitute product constrains the ability of firms in an industry to raise prices. The competition engendered by a threat of substitute comes from products outside the industry. The price of advertising on radio can be constrained by the use of below the line promotions, the use of internet news and the use of outdoor advertising such as billboards and signage. These services are substitutes, yet they are not rivals in the media broadcasting industry. To the manufacturer of automobile tyres, tyre retreads are a substitute. Today, new tyres are not so expensive that car owners give much consideration to retreading old tyres

While the threat of substitutes typically impacts an industry through price competition, there can be other concerns in assessing the threat of substitutes Consider the substitutability of different types of TV transmission local station transmission to home TV antennas via the airways versus transmission via cable, satellite, and telephone lines. The new technologies available and the changing structure of the entertainment media are contributing to competition among these substitute means of connecting the home to entertainment. Except in remote areas it is unlikely that cable TV could compete with free TV from an aerial without the greater diversity of entertainment that it affords the customer

2.5.4. Bargaining Power of Buyers

Buyer power is one of the two horizontal forces that influence the appropriation of the value created by an industry. A producing industry requires raw materials - labor, components, and other supplies. This requirement leads to buyer-supplier relationships between the industry and the firms that provide it the raw materials used to create products. Suppliers, if powerful, can exert an influence on the producing industry, such as selling raw materials at a high price to capture some of the industry's profits The most important determinants of buyer power are the size and the concentration of customers Other factors are the extent to which the buyers are informed and the concentration or differentiation of the competitors. Kippenberger, (1998) states that it is often useful to distinguish potential buyer power from the buyer's willingness or incentive to use that power, willingness that derives mainly from the "risk of failure" associated with a product's use. This force is relatively high where there a few, large players in the market, they are also present where there is a large number of undifferentiated, small suppliers and where there is low cost of switching between suppliers.

Supplier power is a mirror image of the buyer power. As a result, the analysis of supplier power typically focuses first on the relative size and concentration of suppliers relative to industry participants and second on the degree of differentiation in the inputs supplied. The ability to charge customers different prices in line with differences in the value created for each of those buyers usually indicates that the market is characterized by high supplier power and at the same time by low buyer power (Porter, 1998). Bargaining power of suppliers exists in the following situations (i) Where the switching costs are high (switching from one Internet provider to another); (ii) High power of brands; (iii) Possibility of forward integration of suppliers (Brewers buying bars);(iv) Fragmentation of customers (not in clusters) with a limited bargaining power (Gas/Petrol stations in remote places).

2.5.5. Bargaining Power of Suppliers

A producing industry requires raw materials - labor, components, and other supplies. This requirement leads to buyer-supplier relationships between the industry and the firms that provide it the raw materials used to create products. Suppliers, if powerful, can exert an influence on the producing industry, such as selling raw materials at a high price to capture some of the industry's profits. Omamo (2004) identified presenters as the key suppliers driving success in the commercial radio industry in Kenya. The stiff competition to attract and retain these presenters has been intense with staff being offered high salaries and benefits so as not to be poached by rival stations.

2.6 Challenges

The study had a number of challenges in analyzing the radio market using Michael Porters 5 forces model: Some of these expected challenges include; (i) The framework was developed in a the United States which has a more perfect market unlike the Kenyan market where competition is just developing and radio only has about 10 years of progressive competitive environment. Despite the official policy of liberalization, it is still heavily politicized with frequencies still allocated based on political patronage hence stifling competition; (ii) Some of the frameworks elements such as bargaining power of suppliers work better in commodity industries rather than in service industries especially in radio industry hence the need to develop variables suiting the industry (iii) Some of the firms targeted in the survey were not willing to give data on their competitive strategies even though other details such as pricing and market shares were obtained from third party media consultants [illegible] Steadman Media Monitoring Services.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The selection of a data collection method or methods is considered one of the most important steps in creatin a research design The selection and implementation of an appropriate research method impacts on the qualit of results and the deductions made at the end of the research project. This chapter describes the methodolog used in this study and the reasons for their selection. It describes the population size, sample selection, dat collection method and analysis of the data to achieve the projects objectives.

3.2 Research Design

Research design can be described as the specification of procedures for collecting and analyzing data needed to identify or solve a research problem. Tull and Hawkins, (1 984, p.25). This study was carried out using a descriptive research which assumed a causal relation between the attractiveness of the commercial radio industry in Kenya and the factors or variables under study The study used a structured and pre-determined survey questionnaire that was emailed to the respondents for self filling and return. Tull and Hawkins (1984, p.139) defined a survey as the "systematic gathering of information from respondents for the purpose of understanding and/or predicting some aspects of the behavior of the population of interest". A survey was considered to be the most appropriate method in collecting quantitative data that was analyzed and used to determine the attractiveness of the commercial radio industry in Kenya

3.3 Population

The population of interest for this survey was determined as all radio stations currently in operation in Kenya. As at September 2009, when the data collection commenced, there were 90 radio stations in operation in Kenya and the survey was only based on the number of stations listed on the website as at this date

3.4 Sampling

Using purposeful sampling procedure, a total of 11 firms or 12% of the total stations currently in operation were surveyed Tull and Hawkins (1980, p.389) defined purposeful sampling as one in which there is an attempt to draw a representative sample of the population using purposeful selection procedure Tull and Hawkins further state that the amount of variable and systematic selection error present in a purposeful sample depends on the degree of expertise of the person making the selection. The researcher has a ten years experience in the radio Industry and used his expertise to select the sample units from the sampling frame Some of the factors considered in selecting firms to participate included age of the station, its size, revenue share and audience size or segment and ease of getting the required information

3.5 Data Collection

The study used both secondary and primary research The primary data was collected using a structured questionnaire utilizing both face to face interview and in some cases emailed to respondents to self fill and return through email Secondary data obtained from the Steadman/Synnovate Media Monitoring Company has been used in trying to explain the composite index obtained from the primary research The survey adopted a questionnaire as used by Caxton, (2007) in his study on the assessment of the attractiveness of the solar Industry in Kenya

The data was collected using a mixture of email and face to face interviewing method. The questionnaire comprised basic questions on the selected individual firms including size, number of employees, age of firm and annual revenue size. It will also have a section using a mixture of likert scales, rank order of the various variables constituting Porters five forces, rating how important they are in impacting the industry, how they impact on the attractiveness of the industry etc.

3.6 Data Analysis

Factor analysis was used in determining the underlying dimensions of the data and the relationship among the set of variables and elements making up the Porters five forces. Descriptive statistics were also used to summarize and analyze the data This involved the use of frequency, correlations and regression statistics. Charts were also used to portray the general respondents' data such as size, sales volume etc.

Means of the scores of the likert type scale have been computed and used to determine the weighting factor or importance of each attitude variable. Coefficient of variation will be used to assess the extent of agreement by different categories of respondents on the rated importance of the dimension/variable. Using these variables, it was possible to assess, rate and rank each attitude dimension/variable in terms of its weighted importance. Pie charts, bar charts and frequency tables were used to simplify, categorize, show percentages and represent values of the attitude dimensions observed

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

4.1 Introduction

In this section, the research data is analyzed using SPSS Version 15 so as to answer the research problem in this study. In the first part, the profile of the participating firms is analyzed followed by an analysis of each of the research questions organized into the topical factors under which they are categorized. The data is presented using frequency tables, charts, and diagrams so as to accurately and vividly describe the responses

4.2 Sample Characteristics

A total of 11 firms responded to the survey out of 30 firms that were targeted translating to a response rate of 37%. The sample also translates to 12% of the total population of commercial radio stations in operation as at the time of the research which stood at about 90 firms The following analysis, gives the profile of the 11 firms that participated in the survey. The respondents were profiled according to their job titles, age of the firms, size of the firms in terms of both number of employees and estimated annual revenue

Table 4.1: Respondents' Job Title

Respondent's Job Title	Frequency	Percent	Cumulative Percent
Sales Manager	3	27.3	27.3
Programme Controller	3	27.3	54.5
Marketing Manager	2	18.2	72.7
General Manager	1	9.1	81.8
Operations Director	1	9.1	90.9
Operations Manager	1	9.1	100.0
Total	11	100.0	

As seen from the table above, a majority of respondents were in decision making position hence were able to provide vital information to the research project From sales and marketing managers to programme controllers who are the actual product managers ensuring stations provide content, the respondents were vital to the success of this research project.

Size of firms - Number of employees

As seen in figure 4.1, a majority of the firms surveyed had less than 20 employees indicating as expected that commercial radio industry in Kenya, as is in most service industries is not labor intensive unlike the manufacturing industry.

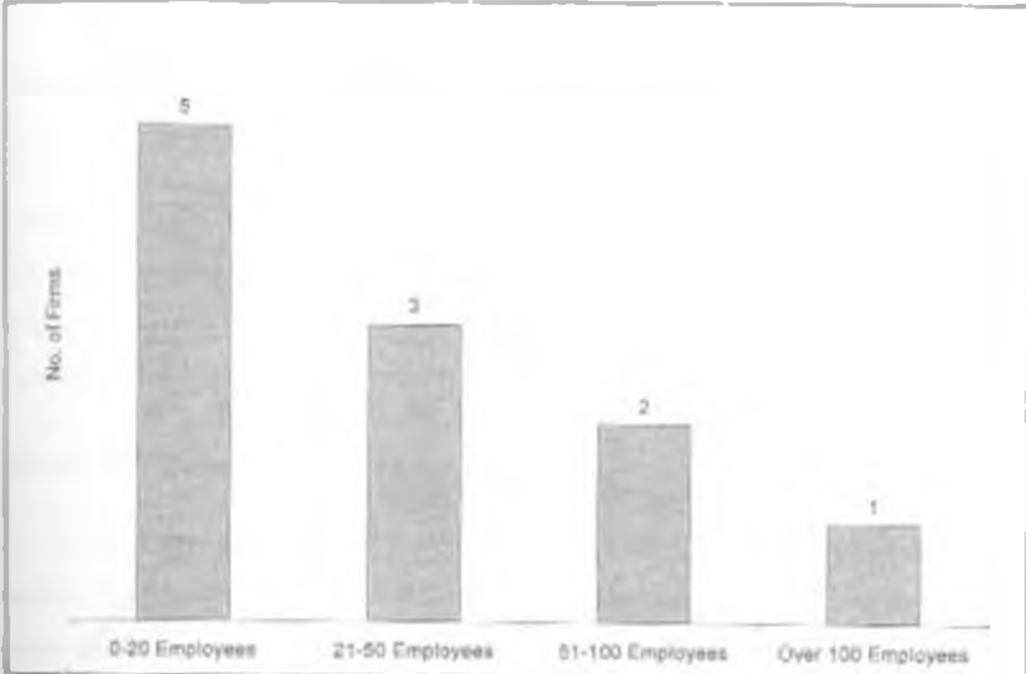


Figure 4.1: Number of employees

Staff in commercial radio stations in Kenya are mainly composed of on-air staff, (sometimes called presenters), journalists, news anchors, programme controllers, accounts and the sales and marketing team. Technical work is mostly outsourced or done by a small team of ICT staff

Age of firms

Table 4.2: Age of the participating firms

Age of participating firms	Frequency	Percent	Cumulative Percent
Less than 2 Years	4	36.4	36.4
2-5 Years	1	9.1	45.5
Over 5 Years	6	54.5	100.0
Total	11	100.0	

As seen in the table 4.2, a majority of the firms sampled have been in operation for over 2 years. This was an intentional bias so as to get the views of firms which have experienced the effect of the high growth of players in the industry. Almost half of the participating firms were relatively new having been launched in the last 5 years. This is significant given that liberalization in the sector began almost 10 years ago in the year 2000.

Average annual turnover

Only 2 of the firms surveyed indicated that they grossed over KShs 200 million a year and both had been in operation for over 5 years. Table 4.3 depict the annual revenue of the firms by the number of years they have been in operation while chart 2, illustrates the profile of the participating firms by their annual revenue size.

Table 4.3: Revenue profile of participating firms by age

	Age of firms			
Annual Revenue	Less than 2 Years	2-5 Years	Over 5 Years	Total
Less than KShs 12 Million	[illegible]	0	[illegible]	1
KShs 13-30 Million	3	0	3	6
KShs 31-100 Million	0	1	1	2
KShs 201-500 Million	0	0	2	2
Total	4	1	6	11

Over half or 6 of the participating firms indicated that they had average annual revenues of between KShs 13-30 million while 2 firms grossed between KShs 31-100 million annually. One of the firms was relatively new and grossed less than KShs 12 million a year illustrating the challenges faced by new commercial radio stations in attracting revenue through advertising.

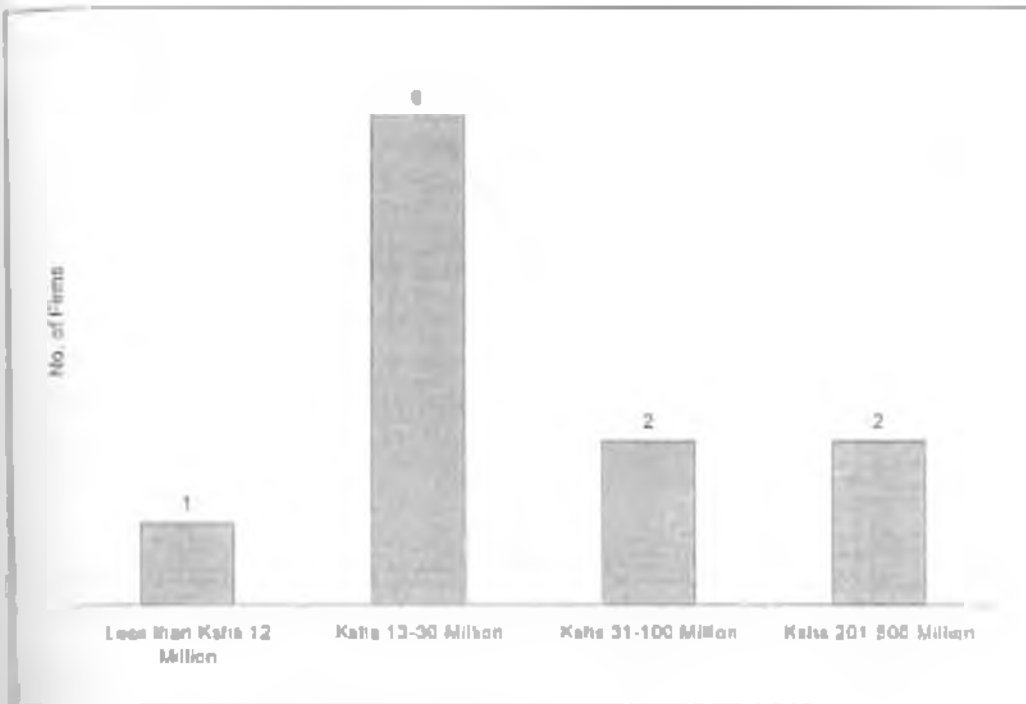


Figure 4.2: Revenue profiles of participating firms

According to Steadman Synnovate, a media monitoring agencies in Kenya, revenue to the commercial radio industry stood at approximately Ksh 10 Billion as at the end of 2008. However this figures are believed to be too high given that they don't take into account discounts and other competitive sales packages used by commercial radio stations. Actual revenue to radio stations is believed to be between KShs 4-7 Billion annually.

Competitive environment at launch

In order to understand the competitive environment for the participating firms at the time of launch, the stations were also profiled by the number of firms they believed were in operation at the time of their launch and how many firms they believe have entered the market since. 2 of the participating firms were pioneers who entered the market when there were no other competitors and have seen these grow exponentially to currently over 90 firms. Table 4.4 illustrates the change in competitive environment for each of the participating firms from the time they started operations to present

Table 4.4: Competitors at launch and new entrants

	Stations at launch	No. entered market since launch
Station 1	30	60
Station 2	80	10
Station 3	7	89
Station 4	75	20
Station 5	40	50
Station 6	1	90
Station 7	2	96
Station 8	50	40
Station 9	10	80
Station 10	50	40
Station 11	0	90

The growth in players in the commercial radio industry has been tremendous averaging 40% annually for the last 10 years according to Steadman as illustrated in the table below:

Table 4.5: Last 10 years growth in commercial radio stations

Year	No. of Stations	Growth %	Year	No. of Stations	Growth %
1990	3		2003	26	30%
[illegible]	5	67%	2004	32	23%
[illegible]	10	100%	2005	38	19%
[illegible]	15	50%	2006	57	50%
[illegible]	19	13%	2007	66	16%
[illegible]	20	18%	2008	95	44%

[illegible]: Steadman Synnovate Kenya, 2009

4.3. Threat of New Entrants to Industry Attractiveness

As seen in table 4.4, firms participating in the survey indicated that an average of 60 new commercial radio stations had launched into the market since they commenced operations. For three of the firms who were pioneers into the industry, the last 10 years has seen the launch of over 90 stations hence increasing competition and rivalry in the industry. All the firms surveyed believed were still possibilities of new entrants into the market with a further 9 or 82% of the responding firms stating that the new firms would pose a threat to their profitability.

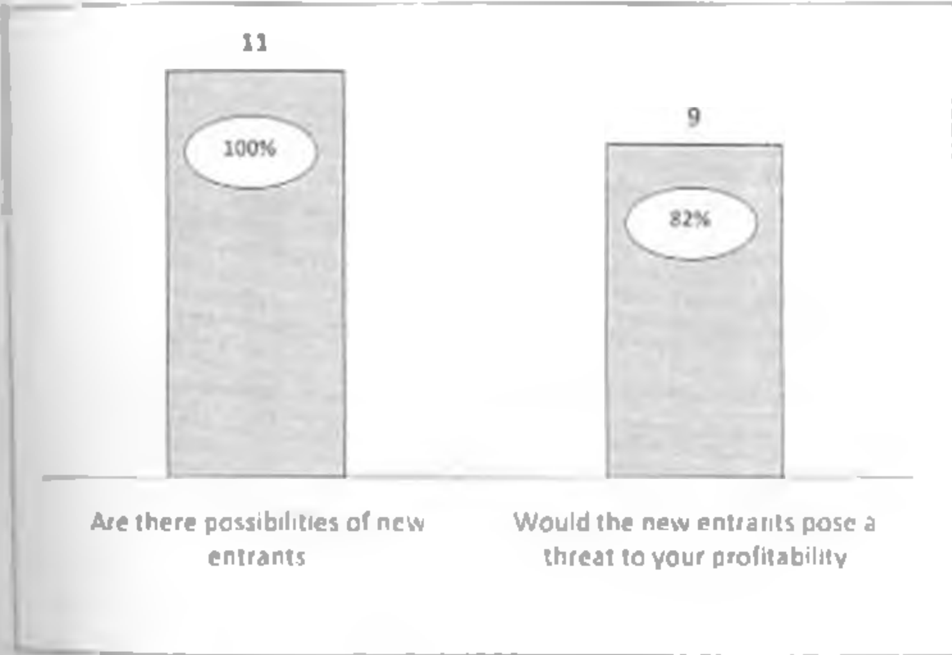


Figure 4.3: New entrants and their threat to existing firms

According to the firms participating in the survey, the new entrants had had moderately reduced their profitability especially for firms who had been in operation for over five years as seen below. According to the survey, the threat of new entrants continued to be moderate even though the number of firms starting commercial radio stations has continued to grow as CCK continues to put pressure on those who were awarded frequencies to start using them or lose them back to the government. The threat posed by new firms is also illustrated by growth in revenue by new stations as measured by Steadman Media Monitoring Company.

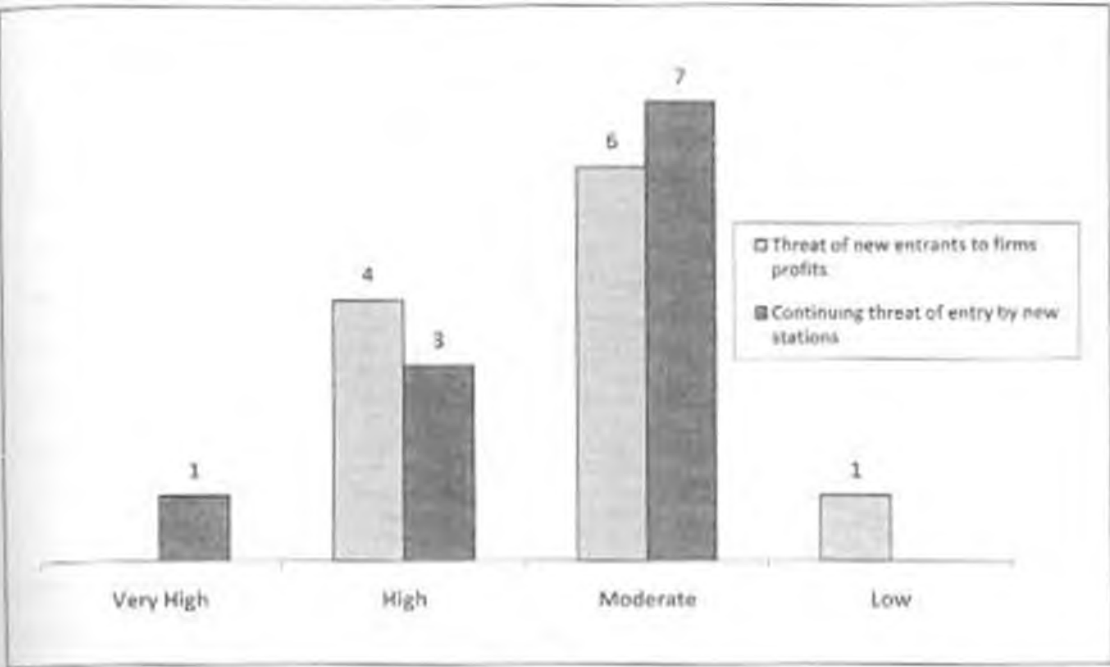
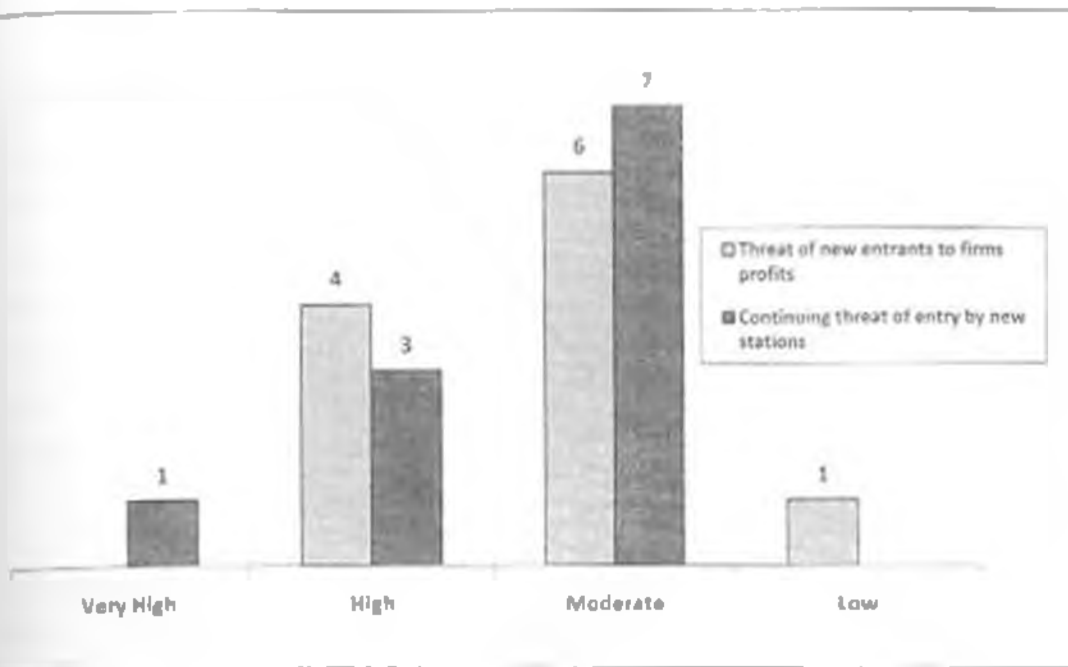


Figure 4.4: New entrant's threat to profitability

From the figure 4 4, 36% or 4 of the participating firms believed that the threat from new stations entering the market on their profitability is high; however a majority of the firms indicated that this threat was at most moderate. This could be due to the fact that it takes time before the new stations are get established enough to attract revenue hence start attracting revenue from advertisers. The challenge of new stations in establishing themselves was also evident in the annual revenue estimates of the participating firms as illustrated in table 4 3 where relatively newer firms had less revenue than the more established stations. However, with maturity and gaining of audiences, the new stations start attracting revenues which cannibalize the market share of the more established stations as indicated in figure 4.5.

The moderate ranking of the threat of the new stations to the profits of the more established firms could also be explained by the relatively high growth of advertising revenue to the radio industry as measured by Steadman Media Monitoring Company. According to Steadman, radio advertising revenues grew from KShs 3.8 Billion in 2004 to approximately Ksh 10.1 Billion in 2008. This has led to the sharing of the new revenue by all stations hence reducing the impact of the new stations on the profitability of the older stations.



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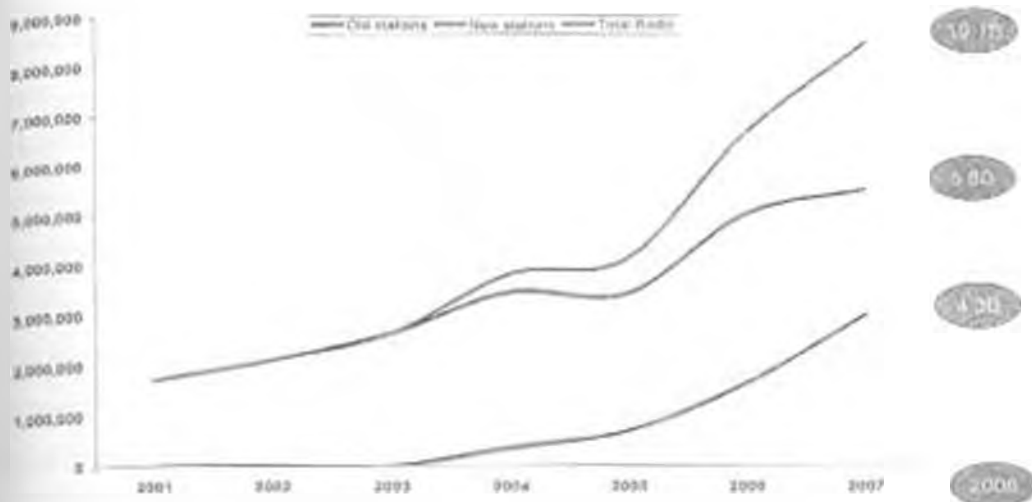

Source: Steadman Synnovate Kenya, 2009

Figure 4.5: Effect of new stations on the revenue of stations already in operation

4.3.1 Strength of Factors Underlying Threat of New entrants

An industry where there a fewer barriers to entry or exit is an open market which ends up impacting negatively on the prices and profits of the industry towards a more competitive level. There are a number of factors which determine the threat of new entrants to an industry often referred to as entry and exit barriers. In order to determine the effect of these factors on the attractiveness of the commercial radio industry in Kenya, the participants were asked to rate the various elements considered barriers to entry and how they affect entry into the industry.

Table 4.6: Rating of various aspects as barriers to entry into the commercial radio industry

Statistics	N		Mean	Std. Error of Mean	Std. Deviation
	Valid	Missing			
Obtaining a frequency	11	0	1.00	0	0
Start up costs	11	0	1.55	0.207	0.688
Gaining acceptance among advertisers	11	0	1.55	0.207	0.688
High operating costs	11	0	1.82	0.226	0.751
Price wars	11	0	2.00	0.381	1.265
Government regulations	11	0	2.00	0.234	0.775
Learning and establishing self	11	0	2.00	0.302	1
Access to advertising market	11	0	2.09	0.343	1.136
Winning audience	11	0	2.09	0.211	0.701
[illegible] by competitors	11	0	2.64	0.31	1.027
Recruiting staff/presenters	11	0	2.82	0.352	1.168

A factor that poses a high threat is interpreted as having an unfavorable impact on the force, in this case entry or exit into the industry while a factor that poses low threat is interpreted as having a favorable impact on the force. Analyzing form the mean scores displayed in table 4.6 indicates that obtaining a frequency remains the greatest barrier to entry into the commercial radio industry with a mean score of a perfect 1 with all the respondents rating it as being very high. As indicated earlier, frequencies are allocated by the Communications Commission of Kenya (CCK) at an application fee of KShs 1,000, after which there is also an annual renewal fee of KShs 160,000 per frequency allocated (As at October 2009). However, there have been claims that the allocation of frequencies is political and corrupt and not as easy. This eventually led to the hoarding of scarce frequencies by people allocated but who did not operationalize the stations leading CCK to give a deadline to those holding frequencies to operationalize them by July 2009 or lose them. Frequency allocation remains one of the main barriers to entry into the industry. This may change with the envisioned proposed new regulations being prepared by CCK to regulate the issuance of frequencies and which may lead to the re-distribution of the existing frequencies. However, this legislation still in the legislative stage with players in the industry lobbying against it application retrospectively as it may adversely affect their businesses.

The other barrier considered key after frequency allocation was identified as the high start up costs with a mean score of 1.55 with 6 or 54.5% of the firms sampled rating it as very high. According to technical broadcasting experts in the industry, it costs approximately KShs 7-10 million to start a single frequency 3.5 Kilowatt station. The major components of this capital expenditure being the purchase and installation of transmitters which costs over KShs 3 million and the rest of the capital expenditure being on building a studio, buying equipments and installation. Apart from the capital expenditure, firms also have to budget for operations costs such as salaries, mast rentals, rent and administration expenses, these however differ according to the size of the firm.
Gaining acceptance among advertisers was the next key barrier with a mean score of 1.55 followed by high operating costs with a mean of 1.82. Since commercial radio stations depend on advertising revenue paid by advertisers in return of on-air advertisement and informatials, they need to be accepted by clients as being able to provide a return on investment for their clients in the form of reach to their audiences for the advertising client. However, new stations take time to gain audience hence it may not be possible for them to convince clients to spend their money on the station. This proves to be a challenge for the stations since they depend on this revenue for their operations cost, hence this creates a barrier for any investor interested in joining the industry. The barrier of gaining acceptance may sometimes be referred to as access to advertising market, winning and establishing self. The high operating costs mainly covers the recruitment of staff including the on-air [illegible], sales team, accounts and administration, journalists and news readers and branding so as to increase awareness and gain audience.

Other barriers as ranked in a descending order on how they negatively impact entry into the industry were price wars (Mean 2.00), government regulations (Mean 2.00), learning and establishing self (Mean 2.00), access to advertising market (Mean 2.09), gaining audience (Mean 2.09), alliances by competitors (Mean 2.64) and the recruiting staff/presenters (Mean 2.82). All these however had a moderate impact on the attractiveness of the industry. It can be concluded that despite the barrier of frequency allocation impacting negatively on the attractiveness of the industry, this is changing and the barrier will keep on reducing. Overall however, the threat of new entrants on the profitability of firms already in operation can be said to be moderate hence threat of new entrants as a factor determine entry into the industry can be described as moderate with a weight core of 3 out of a possible 5 where 1 is very high, 2 is high, 3 is moderate, 4 is low and 5 is negligible. Therefore the threat of new entrants can be said to have a moderately favorable impact on the industry's attractiveness.

4.4 Effect of Industry Rivalry on Industry Attractiveness

The central force in Porters 5 forces model is the rivalry between firms in an industry which refers to the competitive nature of an industry on various elements including price and other non-price dimensions including branding, differentiation etc. In research question two, the respondents were asked on the various elements which indicate the level of rivalry in an industry. According to Porter, if an industry enjoys high levels of profitability and growth, it attracts new players hence increasing the level of rivalry in the industry and impacting negatively on the market share of the existing firms.

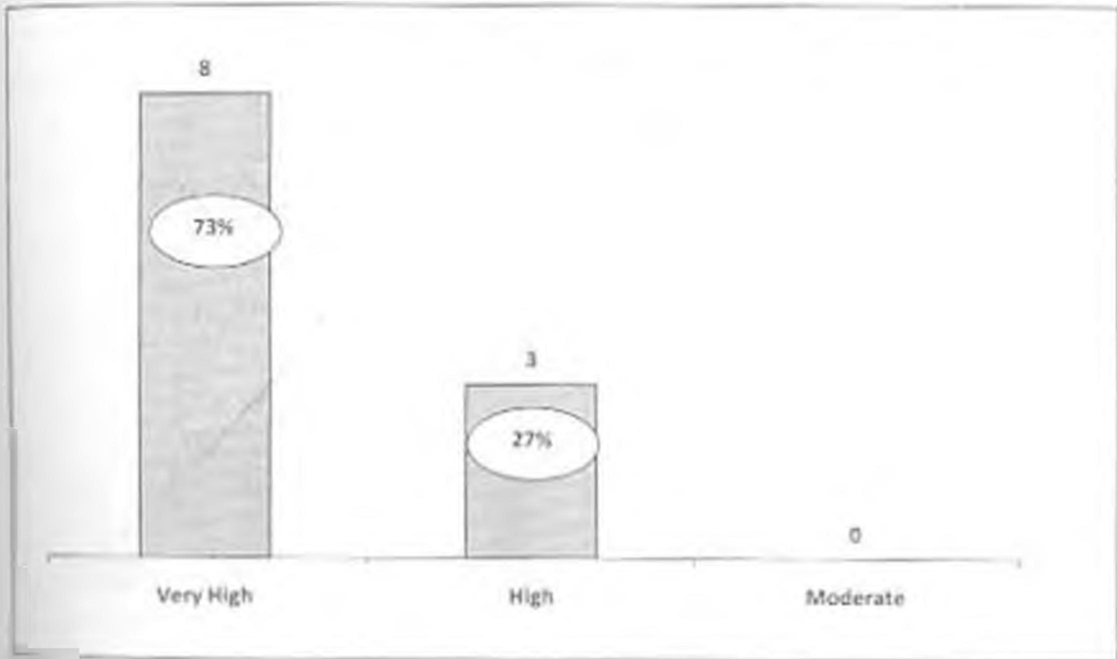

Figure 4.6: Rating of competitive rivalry in the commercial radio industry in Kenya

According to the firms surveyed the level of rivalry in the industry is very high with 73% or 8 of the 11 firms surveyed rating it as very high and the remaining 27% or 3 firms also rating it as high. This is expected since the over 90 stations currently in operations have to compete with each other for the advertisers' revenue as well as audiences

One of the ways of determining intensity of competitive rivalry is through though a concentration analysis which refers to the market share of the leading firms in the industry such as the use of the four firm concentration ratio (CR4). According to Steadman Media Monitoring Company, the four top stations in terms of revenue share control at least 25-30% of the market as at 2008. However this has been declining over the years as new stations launch and mature into the market starting to attract revenue from advertisers. This has in the past led to collusion between these firms to raise their prices referred to as the rate card. However, the rate card price is not always applied due to the high level of competition with each of the firms giving high levels of discounts estimated at between 30-70% of the official rate card. The high level of rivalry in the industry has also led to the adoption of various competitive strategies by firms in the industry so as to beat competition in the fight for audience and revenue. Some of these strategies as mentioned by the respondents are illustrated in figure 4.7.

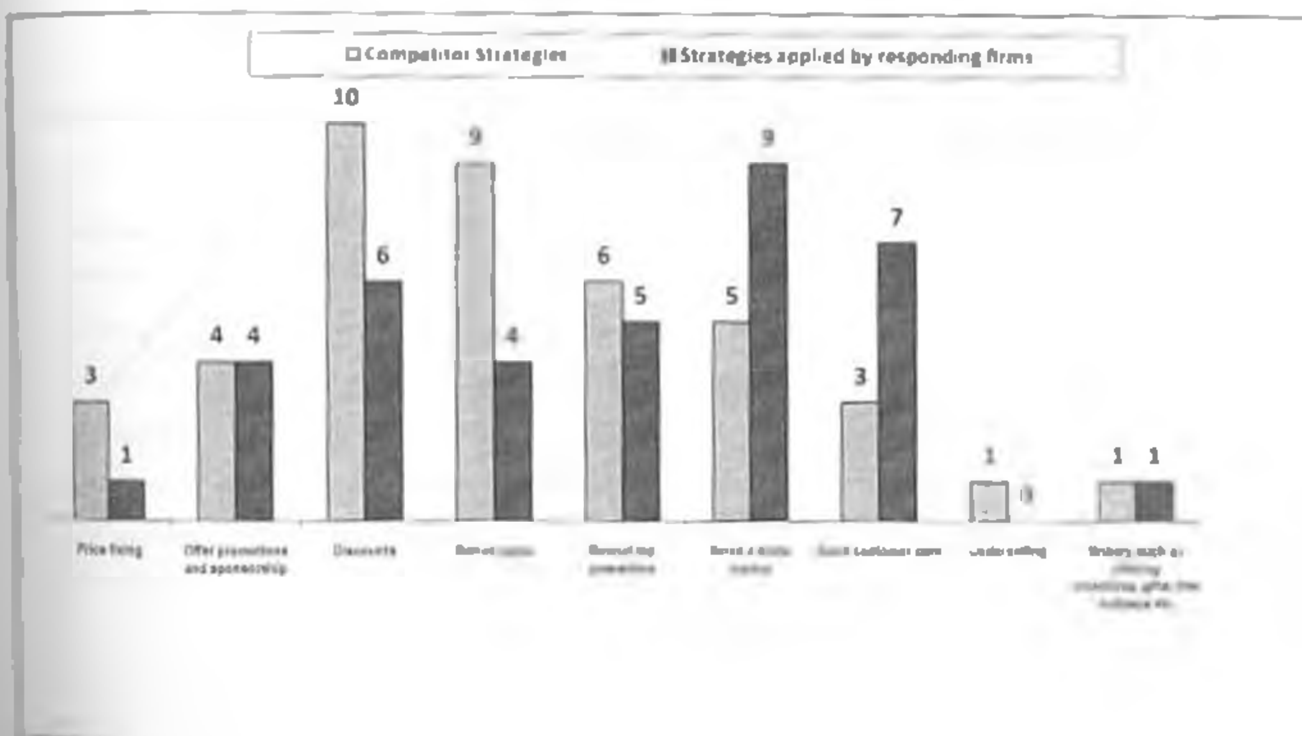

Figure 4.7: Competitive Strategies adopted by firms

As illustrated in figure 4.7, the high level of rivalry in the industry has led to the adoption of both price related strategies such as discounts and bonuses and also non-price based strategies such as recruiting of top presenters to help push promotions, serving a niche market through market segmentation such as use of language, music genre etc to target specific segments rather than the mass market. Intense rivalry has also led to use of unorthodox/unconventional tactics such as underselling, bribery and price fixing. All these point to an industry characterized by high levels of rivalry between firms already in operation.

In firms where, products or services are highly differentiated, firms which have been in existence in the industry longer, have brand recognition, audience and advertisers loyalty. New entrants into such a market have to work tirelessly to develop their brand and gain acceptance and loyalty. This is the same in the Kenya commercial radio industry where more established radio stations have a loyal audience base and hence attract advertising revenue targeting this loyal fan base. According to the participating radio stations, the level of differentiation among the commercial radio stations is still considered moderate as seen in table 4.7

Table 4.7: Level of differentiation in terms of programming and target in commercial radio stations

Level of Differentiation	Total	Less than 2 Years	2-5 Years	Over 5 Years
Total Respondents	11	4	1	6
Highly differentiated	1	0	1	0
Differentiated	3	0	0	3
Moderately differentiated	7	4	0	3

The strategy of differentiation seemed to be gaining ground with new firms launching into the industry, with stations differentiating themselves by music genre such as rock only station, R&B stations, lingala genre station or by language such as Swahili only, urban English stations, ethnic language based stations and even sports based stations. This differentiation has further led to further fragmentation of audiences and the dwindling share of audience and advertising revenue since most advertisers now have to split their budgets to cover different targets audiences listening to the on the different radio stations.

When asked on the effect of rivalry in the industry on their profitability, 64% or 7 of the eleven firms surveyed indicated that rivalry has affected their profitability negatively. The effect of rivalry on the profitability of the firms was rated as either being very high or high with 55% or 6 of the 11 firms with the rest rating this effect as being either moderate(1), low(1) or negligible(1). When asked to identify firms they considered their greatest competitors in the industry, the stations in table 4.8 were mentioned by the participating firms. Some of the firms mentioned 2 or more stations as their greatest rivals.

Table 4.8: Stations which are biggest competitor

Responding Radio Stations	Greatest competitors
Station 1	Kiss FM, Citizen Radio
Station 2	Capital FM
Station 3	Citizen Radio
Station 4	Citizen Radio
Station 5	Ramogi FM
Station 6	Sound Asia, Capital FM
Station 7	Classic 105, X FM
Station 8	Q FM
Station 9	Kaya FM, Pwani FM, Citizen Radio
Station 10	Home Boyz
Station 11	Kiss FM

As seen in table 4.8, most of the sampled firms believed Citizen Radio and Kiss FM to be their biggest competitors. This is informed by the leadership position held by these two stations in terms of both audience and revenue share. All the new firms into the market would naturally target to get their market share from the market leaders. It can be concluded that rivalry among the existing commercial radio stations is high with a weight core of 2 out of a possible 5 where 1 is very high, 2 is high, 3 is moderate, 4 is low and 5 is negligible. With a high negative impact, the threat of rivalry on the industry attractiveness can therefore be described as unfavorable.

4.5 Impact of the Power of Buyers on Industry Attractiveness

Firms in an industry operate in two types of markets, the market for inputs in the case of commercial radio stations in Kenya would be staff/labor, content and music, finances and general equipment supply. In the output market, the radio stations sell air time also referred to as advertisement or informatials to their clients who want their message or brand message to reach these targeted audiences. Clients book advertisement on the stations and pay the time value of the duration of their advertisement or message. Airtime is considered the inventory of commercial radio stations of which they sell and earn revenue.

Bargaining power can be defined by the loss of revenue or cost incurred if a transaction between two parties is not completed. The respondents were asked whether they thought their clients exercised purchasing power over their stations in terms of how they buy airtime and all the firms (11/100%) indicated to the positive meaning clients dictated to stations whenever they bought their services. This also relates to the high number of players in the industry and the equally high level of rivalry leading to a scramble for revenue and clients who are spoiled for choice.

Table 4.9: Rating of various aspects impacting on the bargaining power of buyers

Statistics	N Valid	Missing	Mean	Std. Error of Mean	Std. Deviation
[illegible]ings of advertisement booking	11	0	1.45	0.207	0.688
[illegible] discount decisions	11	0	1.55	0.247	0.82
[illegible] marketing activities	11	0	1.91	0.315	1.044
Products to sell(spots/promotion)	11	0	2.18	0.352	1.168
Credit period	11	0	2.27	0.333	1.104
Terms of sale	11	0	2.36	0.244	0.809
Staff to execute promotions	11	0	2.73	0.384	1.272
[illegible] of new on-air products	11	0	2.82	0.4	1.328
On-air staff	11	0	3.64	0.388	1.286

The buying market in Kenya for the commercial radio industry is categorized into 2 namely, agencies which handle clients who sign on to them for media booking and creative's for advertisement in return for a commission of 18%. There are also direct clients who are either sold to by the station or approach the station to book airtime. Currently there are a total of about 10 advertising agencies handling the big advertisers in the market such as the mobile phone operators Safaricom, Zain, Orange and YU, and also global brands like Coke, Unilever, Nokia etc. It is estimated that advertising agencies control approximately 60 70% of the advertising market in Kenya while direct clients add up to approximately 30-40% of the market. The bargaining power of advertising agencies in Kenya is driven by the fact that they are few and they control a big share of the advertising market. The agencies also have full access to information on the rate card and discounts they can get from stations hence can use this information to get better bargains from commercial radio stations.

In table 4.9, the key element in which buyers' exercised power over the commercial radio station is in the timing of advertisement booking with a mean score of 1.45. This can be attributed to the fact that commercial radio stations usually segment their day into day parts according to programming and in case of sales according to the audience size so as to appropriately price their inventory in this case air time. Whenever clients want to book airtime for advertisement they have to choose the suitable time for airing of their adverts while paying the price or rate card indicated for that period. According to industry research done by Steadman on behalf of the Kenya Audience Research Foundation (KARF), radio stations are mostly listened to in Kenya either in the morning hours between 6-10am or in the afternoon referred to as drive time between 3-7pm. During these periods stations attract the highest audiences hence charge a premium price, equally advertisers want to put their adverts during these day parts to ensure maximum impact and hence may dictate to stations to ensure their messages are aired during such day parts.

Clients also exercise buyers' power over commercial radio stations in terms of pricing and discount decisions with a mean score of 1.55. This power is mainly exercised by agencies which have also built long term relations with the stations and also handle some of the biggest advertisers in the country. The high level of rivalry between firms has also increased the power of buyers to ask for discounts as each station tries to fight for a share of the advertising revenue. This has led to high levels of discounts of up to 70% of the stated rate card. Buyers also exercised power over stations in their marketing activities especially where such activities were joint promotion efforts. However, buyers exercised moderate or low power over commercial radio stations on the aspects of products to sell (Mean 2.18), credit period (Mean 2.27), terms of sale (Mean 2.36), staff to execute promotions (Mean 2.73), development of new on-air products (Mean 2 82), and on on air staff recruitment (Mean 3.64).

Commercial radio stations covered in the study also claimed to exercise some power over buyers in this case advertisers. In the study, 9 out of the 11 responding firms indicated that they also had some power over their clients mainly on pricing and contract terms. Some of the power would be among the above mentioned elements where buyers exercised little power such as products inventory, credit period, terms of sale, on air staff etc. Respondents were clear on whether the clients also exercised power on how they manage their stations. However, this question may not have been clear to the respondent as there is a difference between power of managing a station and the management of advertising services which would be the main interest of advertising clients. It can therefore be concluded that the bargaining power of buyers is high with a weight core of 2.3 out of a possible 5 where 1 is very high, 2 is high, 3 is moderate, 4 is low and 5 is negligible. This can therefore be concluded to have an unfavorable impact on the industry's attractiveness

4.6 Impact of the Power of Suppliers on Industry Attractiveness

Bargaining power of suppliers and the bargaining power of buyers are similar only that in this case now it is the radio stations who are the purchasers of goods or services hence try exercise power over suppliers. The main issue considered in this aspect is the ease by which a firm can switch suppliers and the bargaining power of each of these two partners. In the commercial radio industry in Kenya, suppliers would be considered to be the staff, content providers, equipment providers, financial providers and sellers of music. In a non perfect labor supply market like Kenya with an oversupply of labor, staffs have very little bargaining power and this is the same in the commercial radio industry According to the firms surveyed, only 3 answered in the affirmative when asked if they thought their suppliers or staff exercised power over them. The remaining (8) 73% did not think their staff had any power over them. Table 4.10 indicates the level of power the firms exercised over their suppliers/staff.

Table 4.10: Rating of various aspects impacting on the bargaining power of firms over their suppliers

Statistics	N Valid	Missing	Mean	Std. Error of Mean	Std. Deviation
Service levels/quality of their service	8	3	1.63	0.183	0.518
Contract terms	8	3	1.88	0.295	0.835
Payment terms	8	3	2.13	0.35	0.991
Preventing poaching by competitors	8	3	2.88	0.227	0.641

As seen in table 4.10, firms exercised high influential power over their staff/suppliers when it comes to service level or quality of service with a mean of 1.63 as well as on contractual terms but had moderate to low influence when it comes to payment terms and preventing their staff from being poached by competition. This is evident from a few established presenters who have kept on changing stations frequently as they bargain for better remuneration. However, this bargaining power of staff is limited to a few major stations and does not apply in the whole Industry. Firms surveyed were also in agreement that suppliers and staff actions had a positive effect on their profitability with 80% of the respondents agreeing with this assertion. This is explained by the fact that presenters or on-air staffs are the main voice of the station for selling or advertising products and effective and efficient on-air staff, are compelling enough to sell any product and hence attract revenue from advertisers hence profit for the firm. The important role of staff in attracting revenue lessens their negative impact on profitability due to high operational costs as illustrated in figure 4.8.

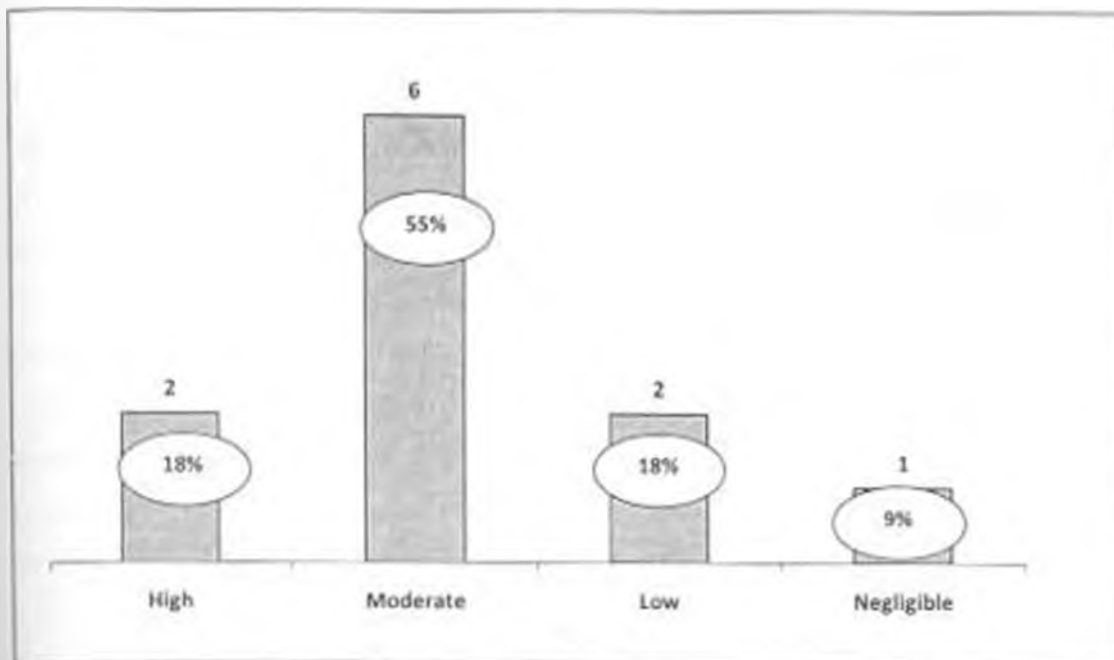

Figure 4.8: Rating of the negative effects of staff/suppliers on profitability

However, the firms surveyed indicated that they exercised moderate to very high power over their staff/suppliers with the following ranking, very high - 36 %(4), high – 36 %(4) and moderate as 27% (3). In concluding about the impact of this factor, it can be said that staff or suppliers exercise very little power over the commercial radio stations with a weight core of 4 out of a possible 5 where 1 is very high, 2 is high, 3 is moderate, 4 is low and 5 is negligible. The bargaining power of suppliers/staff is low and can therefore be said to have a favorable impact on the industry's attractiveness.

4.7 Effect of Substitute Services on Industry Attractiveness

The price advertising clients are willing to pay for radio advertisements depend on the availability of substitutes to radio as an advertising medium. If advertisers perceive other media as close substitutes to the use of radio, they may decide to switch in response to any increase in the radio rate card. However, if there is no close substitute to the use of radio as a media for advertising, clients will be insensitive to rate card changes and will continue being price takers. The extent to which the use of substitute media to radio would limit price/rate card and profitability would depend on the likelihood of advertisers to switch to the alternative media. The respondents were asked to rate television, print, billboards/outdoor, below the line promotions and online advertising as a substitute services to the use of radio as an advertising media. The results are as illustrated in table 4.11.

Table 4.11: Rating of other media as substitute services to radio

Statistics	N Valid	Missing	Mean	Std. Error of Mean	Std. Deviation
Print/newspaper advertising	11	0	2.18	0.263	0.874
Television advertising	11	0	2.64	0.432	1.433
Below the line promotions	11	0	3.27	0.304	1.009
Billboard/Outdoor advertising	11	0	3.36	0.338	1.12
Online/internet advertising	11	0	3.82	0.296	0.982

Firms surveyed considered print to be the closest substitute advertising media to radio with a mean score of 2.18 followed television, which despite also being a broadcast media, is still not considered a close substitute to radio. This could be attributed to the fact that TV penetration in Kenya is still low, hampered by poor infrastructure such as lack of electricity as opposed to radio which enjoys high penetration and is not hampered by lack of electricity since they can be powered by batteries. Other media mentioned were considered of moderate to low threat as substitutes to radio. This means radio as an advertising media still has few other media that can be considered as substitutes. The high penetration of radio in all the regions of Kenya both urban and rural which according to KARF survey stands at over 97% nationally in the past 7 days listenership criterion has helped re-enforce its power as an advertising medium.

Table 4.12: Share of ad exposure by media

[illegible]	2004	2005	2006	2007	2008
Radio	46%	44%	47%	49%	50%
Television	22%	27%	28%	28%	29%
Print	32%	28%	23%	22%	21%
Cinema	1%	1%	1%	1%	0%
Outdoor	N/A	N/A	N/A	N/A	0 01%
Total Exp. Kshs '000,000	**8,369**	**[illegible]**	**[illegible]**	**17,430**	**20,431**
Growth yr on yr	*26%*	*12%*	*45%*	*28%*	*17%*
Media Inflation	6%	16%	10%	18%	

Source: Steadman Synovate Kenya, 2009

Table 4.12 shows how radio continues to attract the largest share of advertising revenue even though television's share is also on the growth path. According to Steadman, while radio and TV have continued to grow their share of advertising revenue, print has been on the decline even though there are far much fewer firms sharing the print revenue as opposed to radio with over 90 stations sharing the same revenue. Despite the low threat posed by the substitutes, 55% (6 firms) indicated that these substitute products affected the prices they charge. This is due to the fact that most advertisers still want their advertisements to be put in all media including radio, TV and print hence could be sensitive to price. Hence the effect of substitute media on the price charged by commercial radio stations has been described as negative by 64% (7) of the respondents interviewed. However, this negative effect of substitutes on prices or rate card charged by commercial radio stations has been described as moderate as illustrated in figure 4.9.

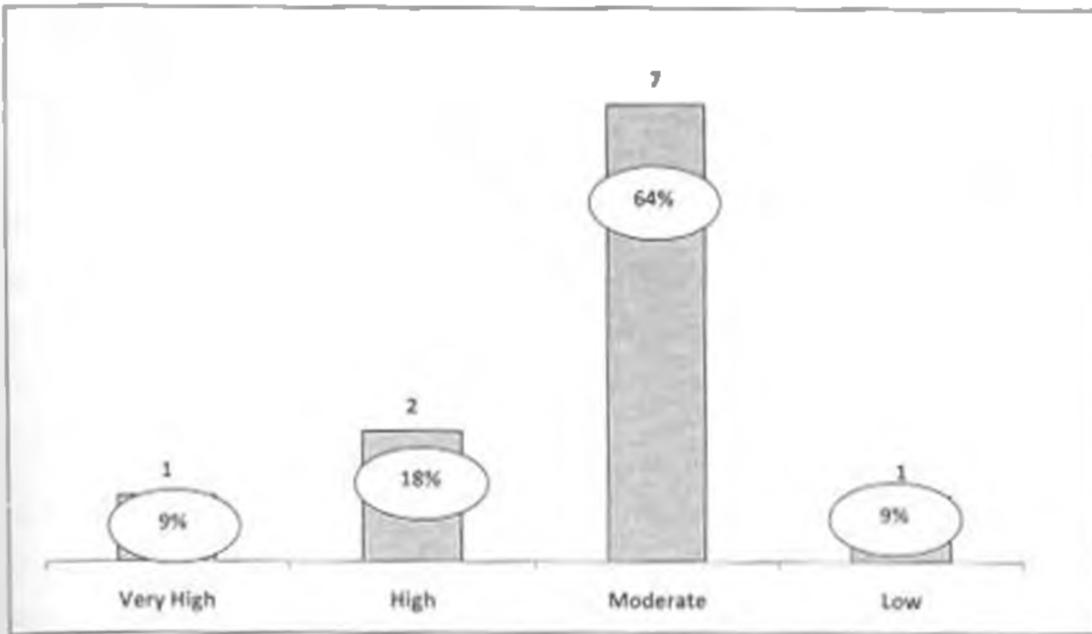

Figure 4.9: Rating of the negative effect of substitutes on prices charged by radio stations

With the moderate effect of the media substitutes on the prices charged by radio stations ranked as moderate, the effect of the substitutes on the stations profitability was also ranked as moderate by 55% or 6 of the respondents surveyed. In conclusion, advertisers seem to still consider radio differently from other media hence there is a low threat of TV, print and other media as a substitute for using radio as an advertising medium. Threat of substitutes can therefore be rated as low with a weighted score of 4 out of a possible 5 where 1 is very high, 2 is high, 3 is moderate, 4 is low and 5 is negligible. The threat of substitute media is low and can therefore be said to have a favorable impact on the industry's attractiveness

4.8 Impact of Government Policies on Industry Attractiveness

Even though this study is based on Porter's five forces framework for industry analysis, the study also decided to include the government as 6th force so as to measure its impact on the industry. As earlier observed, obtaining a frequency remains one of the key barriers to entry into the industry and in Kenya, the government through its agency CCK is charged with issuing of broadcasting frequencies. This would make the inclusion of the 6th force relevant for the study to be more holistic and conclusive In the literature review of the modified Porters model, the government has been identified by some author as the 6th force or part of the complimentors which also impact industry attractiveness.

When asked whether they thought the operations of the government affected their operations in Kenya, all the firms – 100% (11) indicated in the affirmative. Specific elements on government policies and operations that impacted on their profitability were identified as illustrated in table 4.13.

Table 4.13: Rating of impact of government policies on commercial radio stations

Statistics	N Valid	Missing	Mean	Std. Error of Mean	Std. Deviation
Economic climate	11	0	1.36	0.203	0.674
Taxation	11	0	1.91	0.251	0.831
Government expenditure policy/as an advertiser	11	0	1.91	0.368	1.221
Legal policies	11	0	2.18	0.325	1.079
Safety & security	11	0	2.36	0.31	1.027

According to participating firms, government policy on the economy and hence the economic climate had highest impact on the industry with a mean of 1.36 followed by taxation 1.91 and government expenditure policy as an advertiser/client. It is worth noting that the government still remains the biggest buyer of most of the products and services in Kenya and the same applies to the purchase of advertising. The other factors mentioned were legal policies and safety/security which however had moderate impact on the commercial radio industry. Overall, the government of Kenya was identified as having a high to a very high impact on the profitability of the commercial radio industry as illustrated in figure 4.10.

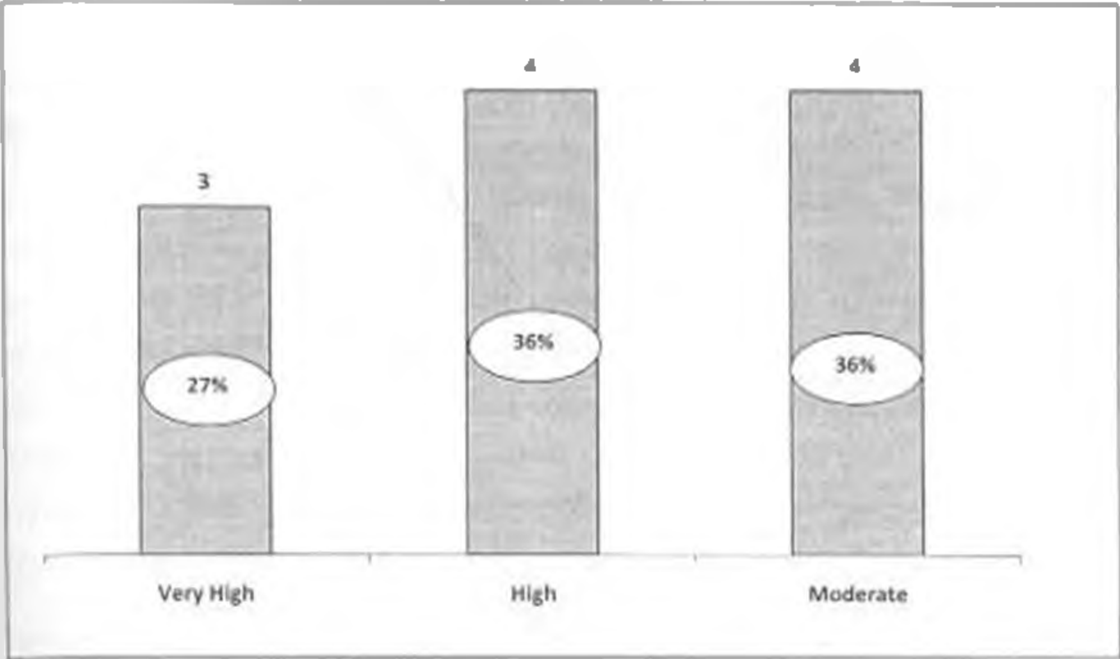

Figure 4.10: Overall rating of the effects of government policy on the commercial radio industry

Some of the general macro-environmental constraints identified by commercial radio stations as impacting their operations in Kenya were given as the poor state of the economy, poor infrastructure, low purchasing power of clients and insecurity among others as illustrated in the table below.

Table 4.14: General constraints facing radio stations in Kenya

	N=11	Freq
Poor state of the economy	10	91%
Poor infrastructure	7	64%
Low purchasing power of clients	6	55%
Insecurity	5	45%
Unregulated entry into the industry leading to competition	3	27%
Lack of skilled personnel	1	9%

In conclusion, though government as the sixth force is not included in the original Porters five forces model for this project, it has been identified as having a high threat on the profitability of the industry through its policies with a weight score of 2 out of a possible 5 where 1 is very high, 2 is high, 3 is moderate, 4 is low and 5 is negligible. The threat of government as a 6th force is high hence can be said to have an unfavorable impact on the industry's attractiveness. This is despite the fact that officially as per government policy, the sector is liberalized, but in practice, government control and influence is still a key factor to be considered by current and potential investors into the commercial radio industry in Kenya.

4.9 Ranking of Forces Impacting Attractiveness of the Commercial Radio Industry in Kenya

Even though a composite index score has been developed for each section, the respondents were also asked on their own to rank out of 5 where 1 is very high and 5 is very low, how the Porter's five forces in addition to government as the 6th force have impacted the attractiveness of the commercial radio industry in Kenya. The results are as illustrated in table 4.15. According to the firms surveyed, barriers to entry as a force had the highest impact on the attractiveness of the commercial radio industry in Kenya (mean=2.00), ranked as high, followed by rivalry within the industry (mean=2.36) and the power of buyers/clients (mean=2.36) respectively. Threat of substitute products and the bargaining power of suppliers/staff had the least impact on the attractiveness of the industry.

Table 4.15: Overall ranking of Porters five forces and the government on their impact on the industry

Statistics	N Valid	Missing	Mean	Std. Error of Mean	Std. Deviation
Barriers of entry into the industry	11	0	2.00	0.467	1.549
Rivalry among competitors in the industry	11	0	2.36	0.338	1.12
Power of buyers/clients	11	0	2.64	0.31	1.027
Government policies in the industry	11	0	3.36	0.453	1.502
Threat of substitute products TV, print and outdoor	11	0	3.45	0.434	1.44
Power of suppliers/staff	11	0	4.27	0.273	0.905

The high ranking of barriers to entry as having the highest impact on the industry's attractiveness can be linked to the difficulty in obtaining a frequency as well as other factors such as gaining audience and market acceptance by clients and advertisers. Rivalry within the industry is explained by the high number of firms competing for the few advertisers in the Kenyan market as well as audiences spoiled for choice on which stations to listen to. As had been explained earlier, there are very few advertisers referred to as buyers or clients and very many suppliers, in this case commercial radio stations. This has led to the adoption of competitive strategies both price based and non-price based with the buyers exercising increased power of the suppliers/stations.

4.10 Additional Comments on the Commercial Radio Industry in Kenya

There were no many additional comments by the respondents but those who had something to add complained that there was a bias in the allocation of frequencies by CCK whereby a few major stations were given more frequencies while a majority were denied. This corroborates the claim that frequency allocation is politicized and there is not competitively given The other comment was given by one of the oldest stations in the market who felt that his market share has been eroded by the new entrants and this has forced them to re-brand and re-launch with an aim of recapturing their lost market. This again is expected and has been explained in the previous chapters.

4.11 Factor Analysis of the Variables Constituting Porters 5 Forces

Factor analysis attempts to indentify underlying variable or factors that explain the patters of correlations within a set of variable. Factor analysis is often used in data reduction to identify a small number of factors that explain most of the variance observed in a much larger number of manifest variables. In this study, the researcher also employed factor analysis to identify any underlying variables factors that could explain the attractiveness of the industry. Factor analysis also helped the researcher to investigate whether the variables used in each of the five forces correlate or if there are any new set of factors that can be identified from the data. The results of the factor analysis are explained in table 4.16.

The factors were analyzed using a matrix 3, 4, 6 and 6 rotations with matrix 6 rotation having the most sensible loading. The variables were rotated using varimax and extracted by principal component. The loading was elements loading identified onto each of the 7 factors after which a fitting description for each of the factors was developed

Table 4.16: Rotated Component Matrix (a)

	1	2	3	4	5	6
Learning and establishing self	0.89	0.215			-0.314	
Pricing discount decisions	0.919	0.3			0.157	0.16
Credit period	0.702		0.601		0.248	0.253
Development of new on-air products	0.776	-0.164	0.121	-0.516	-0.204	0.129
Timings of advertisement booking	0.917	0.239	-0.181			0.217
Television advertising	0.596	-0.485		-0.363		-0.507
Government expenditure policy/as an advertiser	0.789		0.525		0.275	
Access to advertising market	0.219	0.693	0.478		-0.433	0.189
Gaining acceptance among advertisers	0.572	0.755			0.283	
Service levels/quality of their service	0.342	0.779	0.447		-0.212	
Below the line promotions		0.931				0.337
Start up costs		-0.427	0.631	0.616		
High operating costs	-0.168	0.163	0.919	0.127	0.271	
Products to sell(spots/promotion)	0.406	0.417	0.765	0.203	0.108	
Terms of sale	0.145	0.351	0.712	0.274	0.37	-0.369
Staff to execute promotions	0.613	0.354	0.701			
Payment terms		0.402	0.773	0.306		0.263
Contract terms	0.137	0.146	0.666	0.272	-0.243	0.535
Alliances by competitors	-0.401	0.133	0.211	0.803		
Gaining audience	0.371	0.178	0.245	0.561	0.612	0.178
Print/newspaper advertising	0.106	-0.298		0.667		
Billboard/Outdoor advertising		0.166		0.917		
Government regulations	-0.118	-0.358	0.118		0.898	
Obtaining a frequency	0.266		-0.297		0.834	-0.373
On-air staff	0.351		-0.17	-0.57	0.537	-0.412
Price wars	0.151	-0.175	-0.207	0.439		0.828
Taxation	0.243	-0.367		0.118	-0.252	0.744
Legal policies	0.178		0.184	-0.36	0.142	0.818
Recruiting staff/presenters		-0.924	0.172		0.249	0.205
Stations marketing activities	0.493	-0.101	0.524	-0.359	-0.474	-0.101
Preventing poaching by competitors	-0.265	-0.5		0.473	0.634	-0.123
Online/Internet advertising	0.301	0.485	0.137	-0.524	-0.586	0.122
Economic climate	-0.215	-0.208	-0.122	0.119	-0.877	-0.185
Safety & security		-0.387	-0.361	-0.638	0.299	

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a Rotation converged in 18 iterations.

Table 4.16 shows how the variables load unto the 6 factors, with learning and establishing self, pricing discount decisions, credit period, developing of new on-air products, timings of advertisement booking loading unto factor 1. These factors explain the difficulties in the market experienced by new entrants such as the learning curve, development of on-air inventory, sales procedure and the market especially tapping into the government revenue as an advertiser These factors can be described as market entry strategies that stations need to consider when entering the industry as new players.

Factor 2 has access to advertising market, gaining acceptance among advertisers, service levels/quality of their service and below the line promotions as a substitute to radio. These elements explain the challenges faced by new stations in penetrating the market; they are the market acceptance barriers into the industry As explained, it takes time for firms to gain audience hence sell their air time. Factor 3 had the following elements, start up costs, high operating costs, terms of sale, Payment terms and contract terms. All these relate to financial barriers and processes including capital to start the station. They all relate to how the station raises capital and operating costs and its sales process and procedures.

Factor 4 is mainly on the competitive market and how firms survive the high competitive nature of the industry for both revenue and audience. These include alliances by competitors, gaining audience, effects of substitutes such as print/newspaper advertising and Billboard/Outdoor advertising which all loaded unto this factor that can be described as the rivalry or competitiveness of the firms in the industry. The fifth factor is mainly loaded with the government and its policies as a barrier to entry and has government regulations especially the difficulty in obtaining frequencies without which no investor can enter the industry.

Though the factors did not present a clear pattern when loading, the general deduction is that factors impacting the industry could be categorized into regulatory issues such as frequency allocation, market access, on-air products development, financial elements with sales procedure, capital and operational costs requirements. The other category that could be identified was the government as a barrier to entry especially in regards to obtaining a frequency and general policy implications.

CHAPTER FIVE: SUMMARY, CONCLUSIONS & RECOMMENDATIONS

5.1 Introduction

This chapter covers conclusions drawn by the researcher and recommendations based on the research results. It also gives policy implications of the study on the current practice by the government, commercial radio stations advertisers and any other stakeholders in the industry.

5.2 Summary of Findings

In this study, the aim was to establish the level of attractiveness of the commercial radio industry in Kenya to new firms or investors. It was a quantitative study that employed purposeful sampling using self administered questionnaires sent to respondents either through mail or delivered personally. The response rate for the analysis was 37%. The results were then analyzed using SPSS version 15 using the following levels as adopted from the Guidelines for Industry Analysis. In the first level, the strength or degree of threat of each of the elements underlying each force was analyzed. An element that poses a low threat was ranked as having a favorable impact on the force while an element posing a high threat was described as an unfavorable effect on the force being analyzed.

In the 2nd level of analysis, each of the forces was assessed and categorized on the same scale as level 1 on whether they were the threat or strength of the factor on impacting industry attractiveness was deducted. Finally in the 3rd stage, the overall attractiveness of the Industry is determined using the ranking of each of the five forces on how they impact the industry attractiveness. Some of the factors increase the threat, thereby having unfavorable effect on attractiveness of the force while others with a low threat level have a favorable impact on the attractiveness of the force.

From the analysis, it was deduced that despite the high level of new entrants to the industry in the last 10 years, the threat of new entrants to the commercial radio industry was ranked as moderate. However, obtaining a frequency, one of the factors impacting threat of new entrants was identified as the greatest barrier to entry of new firms. This means that, barrier to entry was moderately favorable to commercial radio industry attractiveness.

Rivalry in the industry was ranked as high due to the high number of firms in the industry leading to price and non price competition among the players. It can therefore be concluded that this had an unfavorable impact on the attractiveness of the Industry. Buying power was also the other factor with an unfavorable impact on industry attractiveness due to the few buyers in the industry especially advertising agencies which control over 70% of the advertising revenue in the Kenyan market. The buying power threat was rated as high on the industry

The bargaining power of suppliers was rated as low hence having a favorable impact on industry attractiveness. This is because of the abundant labor in the industry enabling firms to switch or employ other staff especially on air staff whenever there was a disagreement between them and the supplier, in this case the staff. Threat of substitute services was also ranked as low with print being the key threat followed by TV. This also had a favorable impact on the industry's attractiveness. The last factor, though not in the original Porters five forces model is the government described by other authors as the 6th force or part of the complimentors. Government as a force posed high threat on the attractiveness on the Industry especially due to the allocation of frequencies, as an advertising buyer and also as a formulator of policies affecting the industry and the economy as a whole.

According to the firms covered in the study, barriers of entry into the industry was ranked as the factor with the highest impact on the commercial radio industry's attractiveness followed by rivalry among competitors in the industry, power of buyers/clients, threat of substitute products TV, print and outdoor and power of suppliers/staff respectively. An overall assessment of the attractiveness of the commercial radio industry was done at level three analysis with the results summarized as per table 5.1.

Table 5.1: Summary of the overall attractiveness of the commercial radio industry

Competitive Force	Effect on Industry	Ranking
Barriers to entry for new stations	Moderately Favorable	1st
Rivalry	Unfavorable	2nd
Power of buyers/clients	Unfavorable	3rd
Threat of substitutes	Favorable	4th
Power of suppliers/staff	Favorable	5th
OVERALL	**Attractive**	

Adopted from, BUSN 162: Guidelines' for Industry Analysis

5.3 Conclusions

This analysis makes us to conclude that the commercial radio industry in Kenya is still attractive to new investors coming into the industry. However, there is need for openness and transparency in the acquisition of frequencies identified as the key barrier to entry by new firms interested in the industry. In making this conclusion, the role of the government regulator in charge of allocation of frequencies CCK and the laws governing this allocation come into sharp focus. There is already a bill being prepared by CCK to reform the procedures and processes in the allocation of frequencies with one of the suggestions being that no firm should be awarded more than one frequency to broadcast from one location. This could be aimed at making available, the scarce frequencies to more investors rather than to concentrate them in a few firms. However, in formulating this policy, the government should be careful not to have a negative impact on the firms already in operation and who have already heavily invested into the commercial radio industry in the country

There is also a need to restructure the buyer's market which currently consists of too many suppliers or radio stations and very few buyers in the form of advertising agencies controlling all the major advertising clients and hence industry revenue. There should be more agencies so that clients can be spread out amongst them hence reducing the bargaining power of agencies and probably manage the high rivalry currently witnessed. The high bargaining power of buyers has definitely impacted negatively on industry prices and profits. There is also a need for industry alliances such as MOA and APA that would introduce ethics in the market to reduce unethical practices such as undercutting, bribery and the high levels of discount on the rate card practiced by stations

Other interesting aspects of the industry as identified in the study was the low threat posed by substitute services such as TV, print, billboards and newly emerging media such as internet and mobile. The relative strength of radio versus other media is guaranteed by the low development level of Kenya's infrastructure especially electricity which inhibits adoption of TV and internet and the low penetration of newspapers probably due to the bad economy. However, this may change with the adoption of new media such as internet and mobiles. It was discovered that due to the high number of stations in the market, most firms had started to differentiate their service to target specific niche markets rather than serve the mass market

On the overall business environment, the poor state of the economy coupled with the poor infrastructure were identified as some of the key challenges faced by commercial radio stations in the Kenyan market alongside the low purchasing power of buyers/clients and insecurity. The researcher hopes that this among other suggestions and findings in the report will help build the commercial radio industry and the media in general as a platform for the country to achieve the envisioned Vision 2030

5.4 Recommendations

To commercial radio stations

It is recommended to radio stations currently in the market that (i) They should differentiate their service so as to manage the challenge posed by the new stations (ii) They need to ensure they use strategies like branding and entice listeners to listen to their stations by building audience and loyalty hence revenue from advertisers. (iii) Use research to understand audience needs so as to be spot on in the content provision and acquire and retain audience. (iv) Ensure a high level of client service to buyers so as to have an additional advantage over competitors to stave off competition from new firms which will continue entering the market

To advertisers

It is recommended to advertisers or clients that: (i) They should have adequate information to make their buying decisions to maximize on their investment in advertising. (ii) Develop a systematic ethical and way of buying media for maximum impact rather than be swayed by price, discounts and bribery such as enforcing use of industry media research data especially agencies through APA. (iii) Develop more creativity so as to have impactful campaigns on the radio stations so as to differentiate messages and add value to their clients. (iv) Reduce the concentration of clients in one advertising agency hence nurturing creativity and supporting the industry through reduced cut throat competition and a systematic media buying process devoid of corruption.

To the government

To the government, it is recommended; (i) They should streamline the frequency allocation system in Kenya without creating a barrier to new investors or hurting the existing ones. (ii) Develop a plan for the overall macro environment so as to reduce the negative effect of the economy and poor infrastructure on business (iii) As one of the biggest advertiser, the government should tap into the expertise of media buyers such as media buying agencies to maximize on media planning while getting value for money (iv) That they should license more advertising agencies to reduce the high bargaining power of buyers in the industry.

5.4 Recommendations for Further Research

The study was mainly based on the commercial radio industry in Kenya and how the five forces have impacted on the industry attractiveness The researcher however recommends that further research should be carried out on the following areas or topics; (i) An analysis of the attractiveness of the broadcasting industry in Kenya to include both radio and TV; (ii) A specific study to evaluate how the government can streamline the frequency allocation system in Kenya; (iii) An analysis of the commercial radio industry using the modified Porters five forces and using the government as the sixth force; (iv) Research can also be carried out to analyze the value chain in the commercial radio industry so as to identify the operational process and revenue streams in the industry

5.5 Implications to Policy and Practice

The service industry and especially the media is expected to play a pivotal role in ensuring that Kenya achieves its vision of being a middle income country by the year 2030 as developed in the Vision 2030 country strategy According to CCK's Strategic Plan (2008-2013), one of its key visions is to oversee the access to communications services by all in Kenya by the year 2030 The media also plays a big role in facilitating the development of a country through dissemination of information as well as supporting and sustaining trade and consumerism through advertising and informatials With the conclusion of this study that the commercial radio industry is still attractive to new investors, the outcome of this study is expected to have fundamental impact on the current policies and practices in the industry by the different stake holders specifically the government, potential investors, radio stations and advertisers.

The government's involvement in the industry has been through its agency, the Communications Commission of Kenya (CCK), which was established in February 1999 through the Kenya Communications Act, 1998, to license and regulate telecommunications, radio communications and postal services in Kenya. In this regard, CCK has been charged with issuing and regulating the technical aspects of the commercial radio industry in Kenya. However, despite the liberalization, frequency allocation is still perceived by industry players to be corrupt and susceptible to political manipulation This has informed the observation in this study that allocation of frequencies remains the key barrier to entry in an industry still considered attractive by new investors.

CCK has also in the recent past proposed legislations which would further reduce the attractiveness of the industry such as the Kenya Communications Amendment Bill (2007) that was assented to in January 2009. The bill was introduced to help streamline and introduce regulatory provisions in electronic transactions as well as broadcasting which were considered weak. However, certain aspects of the bill such as powers giving the Minister for Communications powers to shut down a station considered to broadcast undesirable content were vehemently opposed by broadcasters with the government finally giving in and reversing the provisions of the section. Recently in 2009 also, CCK also proposed the Kenya Communications (Broadcasting) regulations which amongst other regulations proposed that, the commission will not only regulate content of radio stations but also that all licensees, except the public broadcaster shall not be assigned more than one broadcasting frequency. This proposed regulation will also have a negative impact on the industry's attractiveness as some of the firms already hold more than one frequency for broadcasting to other geographic regions and also for developing new stations targeting different segments of audiences. This study is expected to help inform policy change by the government when negotiating with stakeholders on the proposed new regulations.

The study may also impact on informing the adoption of differentiation as a competitive strategy by firms in the industry so as to reduce the impact of the high levels of rivalry characterized by competition for audiences and revenue. This is already happening but albeit at a lower level but is expected to escalate with the realization according to this study of the high negative impact of rivalry in the industry and the still low level of differentiation. In terms of buyer power, the study may impact on current practice where a lot of advertisers are concentrated on a few agencies hence giving them a high bargaining power which leads to unethical competitive practices by firms in order to attract revenue such as bribery and undercutting. It is hoped that with the study, firms may also tap into the direct clients who are currently not attached to agencies and who have not yet experienced the power of advertising rather than relying on traditional clients already attached to agencies. This in turn will impact positively on the industry while re-enforcing advertising as a force behind trade and commerce.

Finally, the study is also expected to help investors make informed decisions as to their priority when launching stations such as marketing campaigns so as to gain audience and acceptance faster among both audiences and advertisers. It will also inform business planning in radio stations, especially in approximating the time it takes to break even or to start earning returns on their capital employed given the challenges faced by new stations and the proprietary learning curve. Some of the impacts and policy implications of this study may require a specific study to be conducted further even as the commercial radio stations industry and media and ICT in general goes through a tremendous change brought about by the internet revolution.

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APPENDICES

APPENDIX 1: PORTERS 5 FORCES DIAGRAM

Diagram 1: Five Forces that Shape Industry Competition.

Source: The Competitive Intelligence Centre [Accessed On line], March, 2009

APPENDIX 2: LIST OF RADIO STATIONS IN KENYA (AS AT JULY 2009)

Column1	Station ID	Status	Category
1	Abagusii FM	on Air	Commercial
2	Bahasha FM	on Air	Commercial
3	Baraka FM	on Air	Commercial
4	Capital FM	on Air	Commercial
5	Chamge FM	on Air	Commercial
6	Chitambe 91.7 FM	on air	Commercial
7	Classic 105	on Air	Commercial
8	Coro FM	on Air	Commercial
9	East Africa Radio	on Air	Commercial
10	East FM	On Air	Commercial
11	Easy FM	on Air	Commercial
12	EATN	on Air	Commercial
13	Egessa FM	on Air	Commercial
14	English service	on Air	Commercial
15	Equator FM	On air	Commercial
16	Family FM	on Air	Commercial
17	Fish FM	on air	Commercial
18	Frontier FM	on Air	Commercial
19	Garissa FM	on Air	Commercial
20	Ghetto FM	on Air	Commercial
21	GO communications	on air	Commercial
22	Homeboyz Radio	on Air	Commercial
23	Hope FM	on Air	Commercial
24	Hot 96	on Air	Commercial
25	Inooro FM	On air	Commercial
26	IQRA FM	on Air	Commercial
27	Kameme FM	on Air	Commercial
28	Kangema FM	on air	Commercial
29	Kass FM	on Air	Commercial
30	Kaya FM	on Air	Commercial
31	Kiss 100	on Air	Commercial
32	Koch FM	on Air	Commercial
33	Mbaitu FM	On air	Commercial
34	Milele FM	on Air	Commercial
35	MMUST FM	on air	Commercial
36	Mulembe FM	on Air	Commercial
37	Musyi FM	on air	Commercial
38	Muuga FM	on air	Commercial

Column1	Station ID	Status	Category
39	mwanedu fm	on air	Commercial
40	Pamoja 99.9 FM	on Air	Commercial
41	Pwani FM	on Air	Commercial
42	Radio Citizen	on Air	Commercial
43	Jambo Radio	on Air	Commercial
44	Radio Lake Victoria	on Air	Commercial
45	Radio Mang'elete	on air	Commercial
46	Radio Rahma	on air	Commercial
47	Radio Sahara	On air	Commercial
48	Radio Salaam	on Air	Commercial
49	Radio Simba	on Air	Commercial
50	Radio Umoja	on Air	Commercial
51	Ramogi FM	on Air	Commercial
52	Ring'ana FM	on air	Commercial
53	Royal Media Services	on air	Commercial
54	Sauti Communications	on air	Commercial
55	Sauti ya Mwananchi	on Air	Commercial
56	Sayare	on Air	Commercial
57	Setal Radio	On Air	Commercial
58	Sheki FM	On Air	Commercial
59	Shine FM	on Air	Commercial
60	SIFA Garissa	on air	Commercial
61	Sirwo FM	on Air	Commercial
62	Sound Asia	on Air	Commercial
63	Star FM	On Air	Commercial
64	Star Radio	On Air	Commercial
65	Syokimau FM	on air	Commercial
66	West FM	on air	Commercial
67	KIMC	on Air	Educational
68	KU 99.9 FM	on Air	Educational
69	KBC	On Air	Government
70	KBC English Service	on Air	Government
71	KBC Idhaa ya Taifa	on Air	Government
72	Metro FM	on Air	Government
73	BBC world service	On Air	International
74	China Radio	On Air	International
75	Radio France International	on Air	International
76	Voice of America	on Air	International
77	Wikwatyo 105.3	on air	Not Sure
78	Yepchinit FM	on air	Not Sure
79	Baraton University	on air	Religeous

Column1	Station ID	Status	Category
80	Bibla Husema	on air	Religeous
81	Hossana 89.5 FM	On Air	Religeous
82	Imani FM	On air	Religeous
83	Jesus is Lord Radio	on Air	Religeous
84	Light & Life FM	on air	Religeous
85	Light FM	on Air	Religeous
86	Radio Injili	on air	Religeous
87	Radio Maria	On air	Religeous
88	Radio Waumini	on Air	Religeous
89	Sauti ya Rehema RTV Network	on air	Religeous
90	The just liveth	on air	Religeous

Source: CCK WEBSITE; http://www.cck.go.ke/radio_and_tv_stations; Accessed September 2009

APPENDIX 3: QUESTIONNAIRE

UNIVERSITY OF NAIROBI

SCHOOL OF BUSINESS

Department of Business Administration

Note: The information on this questionnaire will be treated confidentially and will not be disclosed to any other party or used for any other purpose other than academic

SECTION A: COMPANY INFORMATION

A1. Name of firm______________________________

A2. Position of respondent

[1] Managing Director [2] General Manager [3] General Manager

[4] Sales/Marketing Manager [5] Programme Controller [5] Other (specify)________ ___

A3. Size of firm

[1] 0-20 Employees [2] 21-50 employees [3] 51-100 employees [4] Over 100 employees

A4. Age of firm

[1] Less than 2 years [2] 2-5 years [3] Over 5 years

A5. Average annual turnover

[1] Less than KShs10 million [2] Ksh 11-30 Million [3] Ksh 31-100 Million

[4] Ksh 100-200 Million [5] Ksh 101-200 Million [6] Ksh 201-500 Million [5] Over Ksh 500 million

A6. How many firms were in operation when you started operating_________________________

SECTION B: MAIN QUESTIONNAIRE

THREAT OF NEW ENTRANTS

Q1. How many players have entered the market since you launched______________________

Q2. Do you think there are still possibilities of other new entrants launching? Yes [ ]   No [ ]

Q3. Would you say the new entrants are a big threat to your profitability? Yes [ ]   No [ ]

Q4. To what extent would you say the new entrants into the industry have reduced your profitability?

Very High [ ]   High [ ] Moderate [ ]   Low [ ]   Negligible [ ]

Q5. How would you rate the continued threat of entry by new commercial radio stations?

Very High [ ]   High [ ] Moderate [ ]   Low [ ]   Negligible [ ]

Q6. How would you rate the following aspects as being barriers to entry into the commercial radio industry in Kenya? Tick as appropriate

	Very High	High	Moderate	Low	Negligible
a) Start-up costs..................................	[ ]	[ ]	[ ]	[ ]	[ ]
b) High operating costs..............................	[ ]	[ ]	[ ]	[ ]	[ ]
c) Price wars..	[ ]	[ ]	[ ]	[ ]	[ ]
d) Government regulations..........................	[ ]	[ ]	[ ]	[ ]	[ ]
e) Obtaining a frequency............................	[ ]	[ ]	[ ]	[ ]	[ ]
f) Access to advertising market..................	[ ]	[ ]	[ ]	[ ]	[ ]
g) Alliances by competitors..........................	[ ]	[ ]	[ ]	[ ]	[ ]
h) Gaining audience....................................	[ ]	[ ]	[ ]	[ ]	[ ]
Recruiting staff/presenters....................	[ ]	[ ]	[ ]	[ ]	[ ]
Learning and establishing itself..............	[ ]	[ ]	[ ]	[ ]	[ ]
Gaining acceptance among advertisers......	[ ]	[ ]	[ ]	[ ]	[ ]

RIVALRY IN THE INDUSTRY

Q7. How would you rate the intensity of competition in the commercial radio industry in Kenya?

Very High [ ] High [ ] Moderate [ ] Low [ ] Negligible [ ]

Q8. Which of the following strategies do you believe your competitors use?

Price fixing [ ] Offer promotions & sponsorships [ ] Discounts [ ] Bonus spots [ ]

Recruit top presenters [ ] Serve a niche market [ ] Good customer care [ ]

Others (Sp) [ ] __________

Q9. Which of the following strategies do you mostly apply so as to beat competition?

Price fixing [ ] Offer promotions & sponsorships [ ] Discounts [ ] Bonus spots [ ]

Recruit top presenters [ ] Serve a niche market [ ] Good customer care [ ]

Others (Sp) [ ] __________.

Q10. How would you describe the level of differentiation in terms of programming and target in the commercial radio services offered by stations in the Kenyan market?

[ ] Highly differentiated [ ] Differentiated [ ] Moderately differentiated

[ ] Not differentiated at all [ ] Don't know

Q11. Has competition from other radio stations affected your performance in Kenya negatively? Yes [ ]

No [ ]

Q12. If yes, how would you rate the effect of competition on your profitability?

Very High [ ] High [ ] Moderate [ ] Low [ ] Negligible [ ]

Q13. Which station do you believe are your biggest competitor? ____________________

BARGAINING POWER OF BUYERS

Q14. Do you think advertising clients exercise purchasing power over your station? (do they dictate to you when they buy your services)

Yes [ ]   No [ ]

Q15a. To what extent do you think customer tastes/preferences have influenced your decision on the following?

	Very High	High	Moderate	Low	Negligible
a) Pricing and discount decisions..............	[ ]	[ ]	[ ]	[ ]	[ ]
b) Credit period............................	[ ]	[ ]	[ ]	[ ]	[ ]
c) Products to sell (spots/promotions etc)	[ ]	[ ]	[ ]	[ ]	[ ]
d) On-air staffing..............................	[ ]	[ ]	[ ]	[ ]	[ ]
e) Development of new on-air products.........	[ ]	[ ]	[ ]	[ ]	[ ]
f) Station's marketing activities.....................	[ ]	[ ]	[ ]	[ ]	[ ]
g) Timing of advertisements booked..............	[ ]	[ ]	[ ]	[ ]	[ ]
h) Terms of sale............................	[ ]	[ ]	[ ]	[ ]	[ ]
i) Staff to execute promotion....................	[ ]	[ ]	[ ]	[ ]	[ ]

Q15b. Do you think you have some powers over your advertising clients? Yes [ ]   No [ ]

Q16. How would you agree with the assertion that your advertising clients exercise a lot of power in your decisions on how to manage your station and advertising services?

Strongly agree [ ]   Agree [ ]   Neither agree nor disagree [ ]

Disagree [ ]   Strongly disagree [ ]

BARGAINING POWER OF SUPPLIERS

Q17. Do you think your suppliers/staff exercise powers over you? Yes [ ] No [ ]

Q18. If yes, how would you rate your influence over your suppliers/staff on the following?

	Very High	High	Moderate	Low	Negligible
a) Payment terms..............................	[ ]	[ ]	[ ]	[ ]	[ ]
b) Contract terms..................................	[ ]	[ ]	[ ]	[ ]	[ ]
c) Preventing poaching by competitors	[ ]	[ ]	[ ]	[ ]	[ ]
d) Service levels/quality of their service	[ ]	[ ]	[ ]	[ ]	[ ]

Q19. Do you think suppliers/staff actions have an effect on your profitability? Yes [ ] No [ ]

Q20. Is this effect positive or negative? Positive [ ] Negative [ ]

Q21. Kindly rate the negative staff/supplier effects on your profitability?

Very High [ ] High [ ] Moderate [ ] Low [ ] Negligible [ ]

Q22. How would you rate your power over suppliers/staff?

Very High [ ] High [ ] Moderate [ ] Low [ ] Negligible [ ]

THREAT OF SUBSTITUTES

Q23. How would you rate the threat of these substitutes to your firm's profitability?

	Very High	High	Moderate	Low	Negligible
a) Television advertising....................	[ ]	[ ]	[ ]	[ ]	[ ]
b) Print/newspaper advertising................	[ ]	[ ]	[ ]	[ ]	[ ]
c) Billboard/Outdoor advertising..............	[ ]	[ ]	[ ]	[ ]	[ ]
d) Below the line promotions..................	[ ]	[ ]	[ ]	[ ]	[ ]
e) Online/internet advertising................	[ ]	[ ]	[ ]	[ ]	[ ]

Q24. Has the presence of any of these substitutes affected the price you charge? Yes [ ] No [ ]

Q25. Has the presence of substitutes affected your profitability negatively or positively?

Positively [ ] Negatively [ ]

Q26. Please rate the effects of substitutes on the prices you charge?

Very High [ ] High [ ] Moderate [ ] Low [ ] Negligible [ ]

Q27. Kindly rate the effects of substitutes on your profitability?

Very High [ ] High [ ] Moderate [ ] Low [ ] Negligible [ ]

GOVERNMENT

Q28. Do you think government operations affect your operations in Kenya? Yes [ ] No [ ]

Q29. How would you rate the effects of the following government policies on your firms operations?

	Very High	High	Moderate	Low	Negligible
a) Economic climate........................	[ ]	[ ]	[ ]	[ ]	[ ]
b) Safety and security....................	[ ]	[ ]	[ ]	[ ]	[ ]
c) Taxation..	[ ]	[ ]	[ ]	[ ]	[ ]
d) Legal policies..........................	[ ]	[ ]	[ ]	[ ]	[ ]
e) Government expenditure policy/as a client	[ ]	[ ]	[ ]	[ ]	[ ]

Q30. Overall, how would you rate the effects of government policies on the commercial radio industry?

Very High [ ] High [ ] Moderate [ ] Low [ ] Negligible [ ]

Q31. What general constraints do you face in your operations in Kenya? Tick as appropriate

a) Poor Infrastructure

b) Insecurity

c) Poor state of the economy

d) Lack of skilled personnel

e) Lo purchasing power

f) Unregulated entry into industry leading to competition

g) Others (Specify)________________________________

Q32. Please rank the factors below in order of how you feel they affect the commercial radio industry performance in Kenya?

a) Barriers to entry into the industry [____]

b) Rivalry among competitors in the industry [____]

c) Power of buyers/clients [____]

d) Power of suppliers/staff [____]

e) Threat of substitute products TV, print and outdoor [____]

f) Government policies in the country [____]

Kindly use the space provided below for any additional comments or suggestions for improvement (attach additional sheet if required)

THANK YOU FOR COMPLETING THIS QUESTIONNAIRE

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

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

P.O. Box 30197
Nairobi, Kenya

DATE.......................................

TO WHOM IT MAY CONCERN

The bearer of this letter PATRICK N. C. OGANGAH

Registration No. D61/7376/06

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

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

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

Thank you.

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

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