Intensive Growth Strategies adopted by Total Kenya Limited in Response to Competition in the Oil Industry in Kenya

By

Midwa, John Michael

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DECLARATION

This management project is my original work and has not been presented for a degree in any other university other than the University of Nairobi for academic purposes.

Signed: __________________________ Date: 18/11/2008

Midwa, John Michael
Admission No.: D61/P/8153/02

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

Signed: __________________________ Date: 18/11/2008

Dr. Martin Ogutu,
Senior Lecturer: Department of Business Administration,
School of Business,
University of Nairobi
DEDICATION

To my mum and late father whose inspiration and bringing out the best in me had a lifetime impact on my performance.
ACKNOWLEDGEMENTS

My utmost gratitude to The Almighty God without whose grace and blessings I would not be where I am today. He who started the good work Has seen it come to completion.

Several people have been instrumental in allowing this project to be completed. I would like to thank especially the late Mrs. Margaret Ombok for her tireless encouragement and patience throughout the duration of this project. May God rest her soul in eternal peace.

I would also like to thank the staff of Total Kenya Limited who spared time from their busy schedule to participate in the study. The project would not have been possible without their cooperation.

To my lecturers and classmates who contributed through sharing of knowledge and useful suggestions, many thanks.

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LIST OF TABLES

Table 1: Market Penetration Strategy  
Page 27

Table 2: Market Development Strategy  
Page 28

Table 3: Product Development Strategy  
Page 28


# TABLE OF CONTENTS

| Declaration | i |
| Dedication | ii |
| Acknowledgments | iii |
| List of Tables | iv |
| Abstract | vii |

## CHAPTER ONE: INTRODUCTION

- 1.1 Background
  - 1.1.1 Intensive Growth Strategies
  - 1.1.2 The Oil Industry in Kenya
  - 1.1.3 Total Kenya Limited
- 1.2 Statement of the Research Problem
- 1.3 Objectives of the Research
- 1.4 Importance of the Research

## CHAPTER TWO: LITERATURE REVIEW

- 2.1 The Concept of Strategy
- 2.2 Intensive Growth Strategies
  - 2.2.1 Market Penetration
  - 2.2.2 Market Development
  - 2.2.3 Product Development
- 2.3 Summary of the Literature Review

## CHAPTER THREE: RESEARCH METHODOLOGY

- 3.1 Research Design
- 3.2 Operationalizing the Variables
- 3.3 Data Collection
- 3.4 Data Analysis

## CHAPTER FOUR: FINDINGS AND DISCUSSIONS

- 4.1 Introduction
- 4.2 Information on the Respondents
- 4.3 Intensive Growth Strategies Adopted by Total Kenya Limited
  - 4.3.1 Market Penetration
  - 4.3.2 Market Development
  - 4.3.3 Product Development
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
5.2 Summary
5.3 Conclusion
5.4 Limitations of the Study
5.5 Recommendations
5.6 Suggestions for Further Research

REFERENCES

APPENDICES

Appendix 1 Complementary Letter to the Respondents
Appendix 2 Interview Guide
The purpose of this study was to determine how the Ansoff intensive growth strategies of market penetration, market development and product development, have been applied by Total Kenya Limited. The objectives of this research were to determine the extent to which Total Kenya Limited has pursued intensive growth strategies, to establish factors that have influenced the choice of such strategies and to determine the influence of these strategies on the firm’s market share.

This study was modelled on a case study design. The organisation of interest was Total Kenya Limited. The research instrument was an interview guide consisting of open ended questions. The guides were administered to 5 managers in Total Kenya Limited who were deliberately chosen to ensure that only those at the strategy development and implementation level were selected as they had the information required. The primary data collected was analysed using content analysis.

With regard to market penetration, key strategies used were encouraging frequent purchases employing price reductions/discounts, value added services, promotions to encourage switching, merchandising and customer care and developing new usage for existing products. Factors that stimulated the firm to employ market penetration strategies included increased competition, higher sales targets, increased market share, decreasing fuel margins and changing customer needs.

Key market development strategies involved operating new distribution channels and developing new customer segments through targeting non-users using sales promotions, product innovations targeting new needs and usage demonstrations. Factors that motivated the use of market development strategies included new customer needs and requirements, the need to achieve economies of scale and lower unit costs as well as the drive for increased market share. Product development strategies entailed improved quality offerings, innovative packaging and branding. Factors that motivated the need to differentiate included the competition, customer needs, market segmentation, the risk of losing business to alternative solutions, health, safety, quality and environmental considerations. Others include technology and government regulations.
The study recommended that Total Kenya make intensive but strategic use of the three Ansoff growth opportunities. It was possible for the firm to increase its market presence in Kenya through market penetration that may entail increasing market coverage in growth areas locally and in the region. This would reduce the cost of fuel in these areas and increase access. Market development can also be intensified regionally, given the many opportunities present, especially with oil discoveries in Uganda and Southern Sudan. Opportunities for product development do exist as Total could borrow ideas from its parent company and have the advantage of low introduction costs.
CHAPTER ONE

INTRODUCTION

1.1 Background

Since the early 1990s, the Government of Kenya faced a number of donor conditionalities with regard to economic liberalization and reforms. Steps have been taken to implement the removal of import licensing, price controls, foreign exchange controls as well as fiscal and monetary restraint and the reduction of the private sector through privatization and civil service downsizing. Through these processes the government hoped to bring about economic liberalisation and reform (Mbendi, 2003).

In the tourism sector, Mugambi (2003) observes that changes in communication technology, exchange rates, global safety and security and competition from other destinations are among key environmental changes that have affected the sectors operations in Kenya. In order to compete effectively, companies resorted to reduced planning periods, in order to enable quick responses to change in the short term, flattening of the organizational structure to improve communication and enhance decision making, rightsizing, outsourcing non-core activities and changes in target markets.

Kiptugen (2003) observes that major business changes notably economic decline, liberalization, legislative changes, increasing level of education and technological advancements had drastically altered the banking and financial sector competitiveness. The communications sector witnessed an introduction of mobile telephone operators, Safaricom and Kencell (later changed to Celtel).

For all sectors, liberalization meant increased competitiveness and many companies embraced modern management techniques and Information Technology in order to improve productivity and performance. Notable effects of liberalization are such as retrenchments, mergers, and rightsizing and in some cases, company closures.
1.1.1 Intensive Growth Strategies

Many definitions on strategy exist, one being from Reinhart, Shapiro and Kallman (1981) who see strategy as those general programs of action with an implied commitment of emphasis and resources to get to a mission. They are patterns of major objectives, conceived and stated in such a way as to give the organization a unified direction.” As traditionally taught, strategy is performed by undertaking a series of activities that form the discipline of strategic planning. In other words strategy is the path that must be followed to achieve the strategic plan. In doing so, strategic control is then employed by top management for effective implementation of the strategic plan.

Growth strategies may be broadly categorized into intensive, diversification, defensive, joint venture and combination strategies (David, 2001). Defensive strategies are those where the firm positions itself so that it can defend itself against the competitive forces surrounding it (Johnson and Scholes, 2002). Joint ventures and diversification occur where firms influence the balance of competitive forces they face through the deliberate implementation of strategic moves that strengthen their position (Hackett, 1996).

Diversification is typically a strategy, which takes the organization away from its current markets or products or competences (Johnson and Scholes, 2002). Diversification will increase the diversity that a corporate centre must oversee. It might occur because the business environment changes threatening both the future of current strategies and throwing up new opportunities; or an organization has resources and competences that can be exploited in new areas or due to the expectations of powerful stakeholders.

Kotler (2001) notes that intensive growth strategies are strategies that require intensive efforts to improve a firm’s competitive position with existing products. Intensive strategies include market penetration, market development and product development. Market penetration seeks to increase market share for present products or services in present markets, market development involves introducing present products or services into new geographic areas while product development entails introducing new products and services into the current market segment.
1.1.2 The Oil Industry in Kenya

Before the liberalisation of the petroleum sector, the tariff structure adopted by the government was led by two primary objectives. These were to ensure the maximization of revenue and to put in place a tax structure that allowed for subsidization of some products by others. The pump prices of petroleum fuels reflect the heavy taxation that the products undergo. The policy of subsidization of some products by others still remained; for instance, kerosene attracts little tax while petrol fuels incur higher rates of taxation. The rationale here is to benefit low-income households that use kerosene (Ikiara and Njenga, 2000).

Liberalisation led to the entry of small independent outfits (Okolo, 2002). Such outfits competed against more established stations by offering discounts on fuel to gain market share. However, due to the taxation structure that made kerosene cheaper than the other fuels, some small dealers resorted to mixing petrol with kerosene to add to their margins thus undercutting the market (Ikiara and Njenga, 2000). Price became the major strategy for competition while quality and service, were sidelined resulting in emergence of illegal outlets, dumping of petroleum products meant for export, which resulted in unfair competition (Chepkwony, 2001).

While the adulteration of fuel is illegal, lack of a clear market regulator meant that the responses were not as prompt. Regulation of this market was imperative because adulterated oil poses a serious safety risk (Ikiara and Njenga, 2000). The prevailing legal and regulatory framework was inadequate to oversee smooth and efficient administration of the industry. The Restrictive Trade Practices, Monopolies and Price Control Act (CAP 504, Laws of Kenya) needed to be reviewed to enable the Monopolies Commission to curb uncompetitive trade practices in the petroleum sector, creating a level playing field for all (Mbendi, 2005).

In terms of legislative action, Kahira (2006) observes that the Governments made a number of changes in the legislations governing the industry. In May, 2003, legislation requiring oil firms to maintain specific stock levels was passed; in November 2003, two legislations, the first to introduce the central tender system for purchasing crude oil and the other directing oil firms to receive all their imported
finished petroleum products at Kenya Pipeline Company’s depot in Mombasa only, were passed. The most recent change directing oil firms to pay customs taxes on imported products in advance at the point of entry was passed in June 2005.

1.1.3 Total Kenya Limited

Total Kenya Limited (TKL) is part of the Total Group, the fourth largest Oil and Gas Company operating in over 100 countries worldwide. Total’s vision is to be a leader in product and service quality; in profitability and returns to stakeholders and be the preferred company regionally. The company’s mission is to market quality petroleum products to its customers profitably in an innovative way. It is the only subsidiary of a multinational petroleum company whose shares are publicly quoted. It has become one of the country’s major oil and gas marketing companies with a market share of 17.1%. Total is well known for its tradition of superior service, hospitality and conveniently located stations in the retail network (Total Kenya Limited 2006).

Various changes have changed the competitive landscape for Total and other oil firms. Environmental considerations have forced the oil majors, such as Total, to import unleaded fuel, which has increased short term operating costs. With other dealers importing the lower cost leaded fuel, unfair competition that favours the small firms has resulted (Environment Liaison Centre International, 2003). This is accentuated by adulteration of fuels by the small dealers to increase margins.

Liberalization of procurement, distribution and pricing of petroleum products; abolition of the “White Oil Rule”; liberalization of the oil transportation modes and the attendant tariffs; legalization of minimum operational stocks of petroleum products; introduction of 2% suspended duty on all refined petroleum products imported into the country and licensing of new companies to engage in petroleum business are challenges facing Total Kenya Limited (Mbendi, 2005).

Other challenges include the central tender system for purchasing crude oil, all imported finished petroleum products to be offloaded at the Kenya Pipeline Company’s depot in Mombasa only and advance payment of customs taxes on imported products at the point of entry (Kahira, 2006). Okolo (2002) observes that, there has been pressure on the Government to rationalize taxation of oil products as increased costs of crude exert inflationary pressure on the economy.
Intensive growth strategies are one avenue through which Total Kenya Limited has exploited some of the opportunities that result from the changed competitive environment. For instance, regarding the case of leaded and unleaded fuels, touting the environmental benefits of the latter can encourage increased usage (market penetration) and rope in new customer segments (market development). Through a combination of the three intensive growth strategies, Total Kenya Limited has been able to increase market share and increase profitability, which in turn has helped to counter any adverse effects of the market changes on the bottom line.

1.2 Statement of the Problem

Ikiara and Njenga (2000) observe that petroleum is a major energy source in Kenya, second only to wood fuel, and with a projected demand growth of 3-5% annually. Petroleum is also important to Kenya because it provides about 67% of the industrial and commercial energy needs. Due to this prominent position in Kenya’s industrial and commercial structure, petroleum prices remain the major drivers of inflation. The country spends up to 4% of the Gross Domestic Product in importation of petroleum products yearly. Of the total fuel needs, wood fuel and charcoal provide 68%; petroleum provides 21%, electric power 10% and coal, 1%.

Kahira (2006) observes that the local petroleum industry in Kenya is faced by rapidly changing competitive forces. The unstable political situation in the Middle East leads to volatile petroleum prices; Government legislation, such as the order to pay taxes upfront have increased the cost of doing business for petroleum firms; the Kenya Petroleum Refineries Ltd has not been upgraded to cater for changing increasing demand and quality needs; unfair business practices from independent petroleum dealers leading to unfair competition and environmental considerations leading to environmental friendly products e.g. unleaded fuels.

Isaboke (2001) notes that oil firms have used generic strategies such as differentiation and segmentation to counter increased competitiveness. Strategic acquisition (acquisition of the Elf franchise) and diversification (the Bonjour/All Seasons shops) are responses that Total has employed in response to increased competitiveness (TKL, 2006). One way in which Total can remain competitive is through the use of intensive growth strategies, namely, market penetration that increases revenues through greater product utilization; market development that leads to increased market share; and
finally, product development, resulting in introduction of new products that meet changing needs. Intensive growth strategies involve increasing a firm’s market presence in its current and new markets using market and product strategies.

Various studies have identified strategic responses occasioned by liberalization. Isaboke (2001) conducted a study whose objective was to investigate the strategic responses that the major oil companies have used to counter the threat of new entrants. Kahira (2006) conducted a study whose purpose was to investigate the strategic responses of Petroleum Importing and Marketing Companies (PIMCs) to various government legislations. No study known to the researcher has examined the use of intensive growth strategies by the oil industry in response to liberalization. This is the gap that this study filled. The purpose of this study was to determine how intensive growth strategies have been applied by Total Kenya Limited as a response to market forces, establishing factors that have influenced the choice of such strategies and determining the influence of these strategies on the firm’s market share.

1.3 Objectives of the Research

The objectives of this research were to:

i) Determine the extent to which Total Kenya Limited has pursued intensive growth strategies.

ii) Establish factors that have influenced the choice of such strategies.

iii) Determine the influence of these strategies on the firm’s market share.

1.4 Importance of the Research

This study will be useful to:

i) Management of Total Kenya Limited in helping them understand how their company has responded to liberalization using the options presented by intensive growth strategies.

ii) Firms in the oil industry in helping them understand strategic manoeuvres used by Total Kenya Limited due to liberalization.

iii) Research in the field of business and academia.
CHAPTER TWO

LITERATURE REVIEW

2.1 The Concept of Strategy

Johnson and Scholes (1993) define strategy as the direction and scope of an organization over the long-term, which ideally matches resources to its changing environment and its particular markets, so as to meet stakeholders' expectations. This definition identifies 3 key components of strategy. First, the need to define the scope and range of an organization's activities within the specific environment it faces. Second, the needs of customers and markets are matched against resource capability to determine long-term direction; and third, the role, which stakeholders have on the strategy articulation because of their influence over the values, beliefs, and principles which govern organizational behaviour and business conduct.

The choice of strategy is fundamental for a number of reasons: first, choice made in a positive sense instils a focus for the organization. The development of a leadership style, which focuses the purpose on the future vision, provides powerful motivation for the firm; second, choice provides a basis for articulating the value systems in the organization. Positive choice help to articulate the value base in the organization and this should be palpable to employees; third, choice provides a route to survival in some form in the future through focus on core business and values; fourth, choice will affect inextricably the management process and systems by and with which the organization chooses to manage (Hackett, 1996).

Strategic responses are the set of decisions and actions that result in the formulation and implementation of plans designed to achieve firm objectives (Pearce and Robinson, 1997). The strategies that an enterprise could pursue to achieve competitive advantage may be broadly categorized into intensive, diversification, defensive, joint venture and combination strategies (David, 2001). These strategies may overlap with each other in many aspects since they are used to pursue the same objective of competitiveness. They are hence not mutually exclusive.
There are essentially 3 choices available to Total in terms of the strategy to pursue. First, a strategy, which aims to position Total so that it can defend itself against the competitive forces surrounding it. Hackett (1996) notes that this approach tends to assume market structure as given, and the key is to focus on areas where competitive pressures are weakest. Such defensive strategies arise out of the desire by an organization to be secure and have a stable niche in the market place (Johnson and Scholes, 2002).

Defensive strategies may be in the form of retrenchment, divestiture or liquidation. Retrenchment occurs when an organization regroups through cost reduction to reverse declining sales and profits and may entail pruning product lines, closing marginal businesses, closing obsolete factories, auctioning processes, reducing the number of employees and instituting expense control system. Divestiture entails selling a division or part of an organization. It has become a very popular strategy as firms try to focus on their core strengths and competences by lessening their level of diversification. Liquidation on the other hand involves selling all of a firm’s assets for their tangible worth.

Hackett (1996) observes that the second strategic choice is where firms influence the balance of competitive forces they face through the deliberate implementation of strategic moves that strengthen their position. This second approach relies on the ability of a firm to really change the forces it faces. Examples of this are Joint ventures and diversification.

Joint ventures are typically thought of as developments where firms remain independent but set up newly created entities jointly owned by the parents for the purpose of capitalizing on some opportunity. This is because firms cannot always cope with increasingly complex environments from internal resources and competences alone. Such an arrangement includes, research and development partnership, cross-distribution agreements, cross-licensing agreement, cross manufacturing agreements and joint bidding consortia (Quint, 2000). In Kenya, some major oil companies formed a joint venture in which they operate petroleum products distribution facilities in Nairobi and Mombasa.
Diversification is typically a strategy, which takes the organization away from its current markets or products or competences (Johnson and Scholes, 2002). Diversification will increase the diversity that a corporate centre must oversee. It might occur because the business environment changes threatening both the future of current strategies and throwing up new opportunities; or an organization has resources and competences that can be exploited in new areas or due to the expectations of powerful stakeholders.

2.2 Intensive Growth Strategies

A firm can adopt a strategy which is appropriate to the perceived changes in the causes of competition, and exploit these changes to its own ends (Hackett, 1996). Such strategies entail market responses that reflect alterations to its product or customer strategies. Such include intensive growth strategies.

The Ansoff Growth matrix (Figure 2.2.1 below) is a well-known marketing tool first published by Ansoff (1957). The Ansoff Growth matrix is a tool that helps businesses decide their product and market growth strategy. Ansoff’s product/market growth matrix suggests that a business’ attempts to grow depend on whether it markets new or existing products in new or existing markets. The output from the Ansoff product/market matrix is a series of suggested growth strategies that set the direction for the business strategy (Assael, 1993).

In a study to determine the extent of the application of Ansoff’s growth strategies in the public utility sector in Kenya, Kiilu (2004) found that market penetration and market development were used to a moderate extent, with the former being the more popular. Product development and diversification were used to a small extent. R&D and customer input served as important parameters in the development of differentiated products to meet different customer needs in the public utilities sector in Kenya. Diversification was least used owing to the risk involved. Kiilu notes that these firms did not show much growth activity probably due to bureaucracy and their public nature.

Chapman (2006) suggests that each of these strategic options holds different opportunities and downsides for different organizations, so what is right for one business will not necessarily be right for another. Think about what option offers the
best potential for your own business and market. Think about the strengths of your business and what type of growth strategy your strengths will enable most naturally. Generally beware of diversification—this is, by its nature, unknown territory, and carries the highest risk of failure.

2.2.1 Market Penetration
Market penetration is the name given to a growth strategy where the business focuses on selling existing products into existing markets (Perreault Jr., 1996). This is fine if there is plenty of market share to be had at the expense of the competition, or if the market is growing fast and large enough for the forecasted growth. If the organization has a large market share there is need to consider whether investing for further growth in this area would produce diminishing returns from the development activity. It could be that the profits will increase more from this activity by reducing costs than by actively seeking more market share. Strong market share suggests there are likely to be better returns from extending the range of products/services on offer to the market (Chapman, 2006).

**Figure 2.2.1 The Ansoff Growth Matrix**

<table>
<thead>
<tr>
<th>Current Product</th>
<th>New Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Market</td>
<td>Market Penetration</td>
</tr>
<tr>
<td>New Market</td>
<td>Market Development</td>
</tr>
</tbody>
</table>

Perreault (1996) observes that market penetration seeks to achieve four main objectives: Maintain or increase the market share of current products—this can be achieved by a combination of competitive pricing strategies, advertising, sales promotion and perhaps more resources dedicated to personal selling; secure dominance of growth markets; restructure a mature market by driving out competitors; this would require a much more aggressive promotional campaign, supported by a pricing strategy designed to make the market unattractive for competitors; increase usage by existing customers—for example by introducing loyalty schemes. A market penetration marketing strategy is very much about “business as usual”. The business is focusing on markets and products it knows well. It is likely to have good information on competitors and on customer needs. It is unlikely, therefore, that this strategy will require much investment in new market research.

Kiilu (2004) notes that the most popular market penetration strategies among public utility firms in Kenya in order of popularity were: encouraging existing customers to buy more often, creating different usage for products and encouraging switching. Penetration was driven mainly by quality offerings, good customer feedback systems, educating customers on the benefits of products or services on offer and after sales service.

Chapman (2006) notes that penetration pricing involves the setting of lower, rather than higher prices in order to achieve a large, if not dominant market share. This strategy is most often used by businesses to build on a relatively small market share. This will only be possible where demand for the product is believed to be highly elastic, i.e. demand is price-sensitive and either new buyers will be attracted, or existing buyers will buy more of the product as a result of a low price.

A successful penetration pricing strategy may lead to large sales volumes/market shares and therefore lower costs per unit. The effects of economies of both scale and experience lead to lower production costs, which justify the use of penetration pricing strategies to gain market share. Penetration strategies are often used by businesses that need to use up spare resources (e.g. factory capacity).

Assael (1993) notes that a penetration pricing strategy may also promote complimentary and captive products. The main product may be priced with a low
mark-up to attract sales (it may even be a loss-leader). Customers are then sold accessories (which often only fit the manufacturer's main product), which are sold at higher mark-ups. Before implementing a penetration pricing strategy, a supplier must be certain that it has the production and distribution capabilities to meet the anticipated increase in demand.

The most obvious potential disadvantage of implementing a penetration pricing strategy is the likelihood of competing suppliers following suit by reducing their prices also, thus nullifying any advantage of the reduced price (if prices are sufficiently differentiated the impact of this disadvantage may be diminished). A second potential disadvantage is the impact of the reduced price on the image of the offering, particularly where buyers associate price with quality (Cateora and Graham, 1999).

Market penetration can be achieved through effective promotion. There are two basic promotion strategies, "push" and "pull". The push strategy maximizes the use of all available channels of distribution to push the offering into the marketplace. This usually requires generous discounts to achieve the objective of giving the channels incentive to promote the offering, thus minimizing your need for advertising. The pull strategy requires direct interface with the end user of the offering. Use of channels of distribution is minimized during the first stages of promotion and a major commitment to advertising is required. The objective is to "pull" the prospects into the various channel outlets creating a demand the channels cannot ignore (Paliwoda, 1993).

Allen (2006) observes that there are different strategies for advertising an offering. Product comparison advertising, where, in a market where the firm's offering is one of several providing similar capabilities, if the firm's offering stacks up well when comparing features, then a product comparison can be beneficial. On the other hand, product benefits' advertising is used when the firm wants to promote its offering without comparison to competitors. This is especially beneficial when the firm has introduced a new approach to solving a user need and comparison to the old approach is inappropriate.
Product family advertising is used when the firm's offering is part of a group or family of offerings that can be of benefit to the customer as a set. Corporate advertising occurs when the company has a variety of offerings and the audience is fairly broad; it is often beneficial to promote the enterprise identity rather than a specific offering. Direct mail advertising involves sending the advertising flyer directly to the consumer. Direct mail advertising is expensive. At the very least, a sales flyer, a response form (which can often be included on the flyer itself), a mailing envelope, and a return envelope are needed. The mailing- and return- envelopes should be pre-printed with the company address (Gosney and Boehm, 2003).

Finally, space advertising involves placing an advertisement in a special-interest publication, rather than rent its mailing list (Kotler, 2000). In space advertising, it is advisable to use the services of an agency that can design effective advertisements. Web Advertising is ideal for websites that reach the organization's target audience and it is possible to purchase advertising on those sites.

The organization must also select the distribution method(s) to be used to get the offering to the customer. Some of the methods proposed by Allen (2006) include on-premise sales involving the sale of the product offering using a field sales organization that visits the prospect's facilities to make the sale; direct sales that use a direct, in-house sales organization that does all selling through the Internet, telephone or mail order contact; and wholesale sales using intermediaries or "middle-men" to distribute the product or service to the retailers.

Others include self-service retail sales involving of the offering using self service retail methods of distribution and full-service retail sales through a full service retail distribution channel. Of course, making a decision about pricing, promotion and distribution is heavily influenced by some key factors in the industry and marketplace. These factors should be analysed initially to create the strategy and then regularly monitored for changes. If any of them change substantially the strategy should be re-evaluated.

Werner, McDermott and Rotz (2004) observe that firms can grow to national prominence by developing a successful distribution format, aggressively acquiring real estate and investing heavily in brand building. This strategy works well in the
early phases of a company’s growth and, in fact, is the only way to become a national company. The trouble begins, however, when the firm becomes so big that its returns on incremental investment deteriorate and its earnings plateau. Soon, management fails to develop other ways to run the company.

If firms are to avoid flat or declining earnings in the coming years, they must master two alternative approaches to managing their operations. First, they will need to develop a more accurate understanding of the profitability of the different products they offer in their stores and more know-how on how to position those products to take advantage of high margins and/or turns. Second, they will need a more accurate picture of which customer segments are profitable and an improved ability to position their products and stores to reach those customers. In short, the focus will have to shift from adding new stores to improving the profitability of existing stores, and with that a shift from corporate control to local autonomy and experimentation (Werner et al., 2004).

Werner et al. (2004) looks at three broad options-intensive, selective and exclusive distribution: Intensive distribution aims to provide saturation coverage of the market by using all available outlets. For many products, total sales are directly linked to the number of outlets used (e.g. cigarettes, beer). Intensive distribution is usually required where customers have a range of acceptable brands to choose. In other words, if one brand is not available, a customer will simply choose another.

Selective distribution involves a producer using a limited number of outlets in a geographical area to sell products (Kotler and Armstrong, 2001). An advantage of this approach is that the producer can choose the most appropriate or best-performing outlets and focus effort (e.g. training) on them. Selective distribution works best when consumers are prepared to "shop around" - in other words - they have a preference for a particular brand or price and will search out the outlets that supply. Exclusive distribution is an extreme form of selective distribution in which only one wholesaler, retailer or distributor is used in a specific geographical area.

There are many factors that influence choice of distribution channel. An important market factor is “buyer behaviour”; how do buyers want to purchase the product? Do they prefer to buy from retailers, locally, via mail order or perhaps over the Internet?
Another important market factor is buyer needs for product information, installation and servicing. Which channels are best served to provide the customer with the information they need before buying? Does the product need specific technical assistance either to install or service a product? Intermediaries are often best placed to provide servicing rather than the original producer - for example in the case of motorcars (Chapman, 2006).

The willingness of channel intermediaries to market product is also a factor. Retailers in particular invest heavily in properties, shop fitting etc. They may decide not to support a particular product if it requires too much investment (e.g. training, display equipment and warehousing). Another important factor is intermediary cost. Intermediaries typically charge a “mark-up” or “commission” for participating in the channel. This might be deemed unacceptably high for the ultimate producer business (Pillai and Bagavathi, 2007).

A second category of factors is producer related (Chapman, 2006). A key question is whether the producer has the resources to perform the functions of the channel. For example a producer may not have the resources to recruit, train and equip a sales team. If so, the only option may be to use agents and/or other distributors. Producers may also feel that they do not possess the customer-based skills to distribute their products. Many channel intermediaries’ focus heavily on the customer interface as a way of creating competitive advantage and cementing the relationship with their supplying producers.

Another factor is the extent to which producers want to maintain control over how, to whom and at what price a product is sold. If a manufacturer sells via a retailer, they effective lose control over the final consumer price, since the retailer sets the price and any relevant discounts or promotional offers. Similarly, there is no guarantee for a producer that the retailer has actually stocked their product(s). Direct distribution gives a producer much more control over these issues (Kotler, Wong, Saunders and Armstrong, 2005).

Product factors are the third set of factors that influence choice of distribution channel. Large complex products are often supplied direct to customers (e.g. complex medical equipment sold to hospitals). By contrast perishable products (such as frozen food,
meat, bread) require relatively short distribution channels - ideally suited to using intermediaries such as retailers (Werner et al., 2004).

2.2.2 Market Development

Sargeant and West (2001) note that market development is the name given to a growth strategy where the business seeks to sell its existing products into new markets. There are many possible ways of approaching this strategy, including: new geographical markets; for example exporting the product to a new country; new product dimensions or packaging; new distribution channels and different pricing policies to attract different customers or create new market segments.

Chapman (2006) argues that new markets can also mean new sub-sectors within the current market-it helps to stay reasonably close to the markets the organization is familiar with and which are familiar with the organization. Moving into completely different markets, even if the product/service fit looks good, holds risks because this will be unknown territory and almost certainly will involve working through new distribution channels, routes or partners. If the company has good market share and good product/service range then moving into associated markets or segments is likely to be an attractive strategy.

Market development can imply new market segments, new distribution channels or new geographic markets. Finding new markets does not guarantee long-term or short-term profitability but economies of scale in producing for the market will contribute to profitability. Entry barriers may reduce the overall profitability prospect. Geographic expansion may involve changing from a regional operation to a national operation, moving to a new region or expanding to another country. A firm can also grow by reaching to new market segments; a key to detecting new markets is to consider a wide variety of segmentation variables, for instance, usage-target the non-user; distribution system-new markets can be reached by opening up new distribution channels; age-pulling in additional age categories in the population (Proctor, 2000).

Kiilu (2004) observes the targeting of new customer segments, selling in new national geographical areas and new distribution channels as the most popular market development strategies. International expansion was the least important form. When
approaching new markets, differential pricing was the most used strategy, followed by opening of new outlets, mobile services and finally distribution channels.

When developing new markets, companies may squander resources chasing the wrong customer segments. In order to maximize earnings, there is a strategy to master that is, increasing customer lifetime profitability, i.e., understanding and maximizing the profitability of a customer’s long-term relationships with the firm. Targeting desired customers helps retailers redirect their marketing strategies toward the highest-value customer segments (Werner et al., 2004).

Mulandi (2005) in researching on the extent to which Kenya Airways (KQ) has pursued the market development strategy in relation to other growth strategies revealed that this is the main growth strategy that has seen the airline expand its operations in Africa, Europe and the Far East. In Africa, KQ flies to South Africa, Djibouti, Senegal and Mali; in Europe, to Turkey; and in the Far East, to Thailand and China; all the routes were developed at the beginning of this decade. The airline is financially strong and has achieved high operational efficiency.

Werner et al. (2004) also observes that this is becoming more feasible today as more firms have the technology to identify individual customers and their purchasing patterns through loyalty cards, credit cards and automatic payment systems. When retail companies use this information to manage customer value, they usually see that economic profits are even more concentrated in customer relationships than within a product portfolio, i.e., very few customers are actually driving all the value creation of the retailer.

2.2.3 Product Development

Product development is the name given to a growth strategy where a business aims to introduce new products into existing markets. This strategy may require the development of new competencies and requires the business to develop modified products that can appeal to existing markets (Perreault Jr., 1996).

Chapman (2006) notes that this is an attractive strategy if the company has a strong market share in a particular market. Such a strategy can be a suitable reason for acquiring another company or product/service capability provided it is relevant to the
organization’s market and distribution route. Developing new products does not mean that the organization is directly involved (which is normally very expensive and frequently results in simply re-inventing someone else's wheel).

Often there are potential manufacturing partners out there who are looking for their own distribution partner with the sort of market presence that the given company has. However if the organization already has good market share across a wide range of products for the given market, this option may be one that produces diminishing returns on growth investment and activities, and instead market development may be the better strategic option.

Competitive advantage is viewed by organizations as being directly related to various integral elements of a product that includes: product superiority, uniqueness and competitive pricing. A study by Booz, Allen and Hamilton (1982) identified various categories of new products, ranging from completely new products through to simple cost reductions on existing product lines, and revealed that the more innovative categories yielded a higher proportion of successes.

Issues of common importance to organizations, which affect the processes of new product development (NPD) and subsequent performance outcomes, include: organizational management style, attention to detail in the processes of NPD, support for product innovation by top management, organizational strategic thinking and manufacturing facilities to support NPD (Gupta and Wilemon, 1990). These issues, identified as being of importance for product innovation success, need to build on an organization’s existing core competencies, rather than pursuing new opportunities far from one’s skill and resource base, as a means to success (Prahalad and Hamel, 1990).

Organizations are increasingly concentrating on responsiveness and flexibility through product innovation. The rapid delivery of new products requires effective communications between design, engineering, marketing and manufacture enabling organizations to be adaptable and responsive to market conditions. Takeuchi and Nonaka (1986) indicate that the approaches adopted in producing new products are frequently inadequate for many of today’s NPD challenges. To develop fast cycle capabilities organizations need to adopt an integrated approach to NPD. Close
communications are required between R&D, marketing and manufacturing in enabling responsiveness and flexibility of product innovation (Hardaker, 1998).

Market research provides a means for understanding the consumer purchase decision and anticipating consumer behaviour. In the product development process, use of market research focuses on identifying opportunities for product innovation and understanding the evaluative criteria used by the consumer in reaching a purchase decision (May-Plumlee and Trevor, 2006). Product development methods and models used by firms include focus groups, limited rollout, concept tests, show tests and clinics, attitude and usage studies, conjoint analysis, Delphi technique, quality function deployment, home usage tests, product life cycle methods and synectics (Mahajan and Wind, 1992).

As to the implementation of new product efforts, the underlying concept of marketing orientation, having reasonable market knowledge and marketing skills, identifying the real customer needs or making any market research, has been generally considered one of the key success factors (Calantone, DiBenedetto and Divine, 1993). In this respect, case firms are representatives of the most poorly managed facet of NPD.

Resorting to their own in-house market knowledge solely or to the feedback received from an existing distribution network—a typical means to assure the fit of a new product concept in all cases—follows in line of its reactive new product approach. Chay (1989) related the new product failure rate to inadequate expenditures on strategic market analysis and on assessment of consumer needs and wants. Market research is also useful in identifying new product opportunities (Bossu, 1995).

During their rapid geographic expansion, firms typically bring together a vast array of products to attract customers. This may make economic sense at first, as retailers are trying to generate excitement and offer convenience. But over time, rapid growth can conceal the fact that many of these products do not make money for the company. The next step is to become more selective in which products to offer and which to discontinue. There are three points in particular to focus on:

First, understanding category profitability is important for firms to know which products are contributing to the value of the company (Jain, 2006). Typically, product
profitability is measured superficially in terms of gross margin or operating contribution, for example. But each product's profitability is also affected by shared costs, such as head office marketing and administrative expenses. It is also affected by capital costs such as the holding cost of inventory. Unfortunately, most companies have not developed the ability to track these costs on a product-specific basis and thus lack a clear picture of which products are economically profitable.

Secondly, a more accurate understanding of product economics can help firms in focusing on profitable products (Werner et al., 2004). This requires a "house cleaning" to prune those categories that are creating a drag on the bottom line, which in turn may require major changes in corporate and business unit strategy. Finally, managing the product offering, which entails the firm knowing where it makes money in its product portfolio and how to exploit that understanding through merchandising, store layout and other marketing techniques.

Consumer focused product development strategies include both quantitative and qualitative techniques and methods. Use of qualitative strategies for identifying consumer needs or wants is sometimes considered a preliminary step in a research process providing the foundation for quantitative research (Weiner, 1994). Focus groups provide a qualitative strategy for examining consumer's feelings and attitudes toward purchase and use of a product. Such research provides in-depth insights into consumers' preferences, decision processes and priorities.

Ways in which focus group interviews are used in product development include basic need studies for product idea creation, new product idea or concept exploration, product positioning studies, advertising and communication research, background research on consumers frame of reference, determination of attitudes and behaviours and establish of consumer vocabulary prior to questionnaire development (Tull and Hawkins, 1993). Focus groups must be repeated regularly to keep abreast of changing consumer attitudes. So, they are often used in combination with other methods.

Synectics is an alternative, more structured group process for generating product ideas (Urban and Hauser, 1980). This strategy is useful for generating quality new product concepts, but because this technique requires a substantial time commitment it is more appropriate for expensive products with a long development cycle. Ethnography,
including observational research, is a qualitative method growing in importance for product development (Fellman, 1999).

Limited rollout, or test marketing, involves duplicating a planned national new product marketing program in limited geographic areas to determine market acceptance and test alternative mixes (Tull and Hawkins, 1993). Concept tests frequently gather data on likelihood of purchase, product importance, perceived product quality and perception of specific product attributes (Gruenwald, 1992).

Quantitative attitude and usage studies provide data on consumers' attitudes, past behaviours, and intended behaviours, and other forms of descriptive information (Tull and Hawkins, 1993). Attitude and usage studies are used to assess similarities between products, tradeoffs among attributes, preference among products, intent to purchase and propensity to innovate (Urban and Hauser, 1980).

Conjoint analysis assesses perceptual position in the market and the optimal combination of product attributes (Weiner, 1994), and predicts consumer preferences for a new product. Product life cycle models are used to determine when existing products should be replaced with newer, more profitable products. When a product moves into the decline phase, profits decrease (Urban and Hauser, 1980), and it must be replaced with a new or revised product.

Point of sale (POS) or scanner data provides a source of information about consumers purchase patterns for many products. Commercial research firms record consumer purchases from thousands of outlets and form aggregate models reflecting consumer purchase patterns (Tull and Hawkins, 1993). POS data is used to analyse trends, test new products, plan product introductions and forecast sales volume in this replenishment cycle (Kurt Salmon Associates, 1995c). This allows the firms to tailor customer acquisition and retention strategies, marketing communications and promotional policies based on the expected lifetime profitability of the customer. Customers benefit because the retailer understands their needs better and provides a superior selection in return (Werner et al., 2004).

The Delphi technique is a method for forecasting new product sales utilizing a panel of experts and an estimation and evaluation cycle that repeats until a consensus is
reached (Tull and Hawkins, 1993). This strategy provides a means of estimating the sales potential of new products having longer product development cycles. Although this strategy is viewed as essential to development of products, it is insufficient to remove the uncertainty from the process. In this type of research, others predict what consumers will desire, while consumers have minimal, if any, direct input. Intermediaries such as retail buyers and sales representatives also provide input to product development via opinions regarding products in development (May-Plumlee and Trevor, 2006).

Interfirm NPD partnerships proliferate largely because firms often cannot undertake NPD initiatives alone, especially when new technology is involved. The technology context has a major influence on interfirm NPD partnerships (Beth, Burt and Copacino, 2003). New products can be jointly developed by suppliers and customers (e.g. Adler, Mandelbaum, Nguyen and Schwerer, 1996). Equally, the capabilities of two firms can overlap and some capabilities can actually be duplicated in order to promote learning, coordination and integration (Joglekar, Yassine, Eppinger and Whitney, 2001).

Conscious planning to reduce transaction costs and decisions on new technologies has an impact on the partnership's capabilities and success. Closer integration, more effective and responsive partnerships, like those made famous by Toyota and Japanese firms in general (Oliver and Delbridge, 2002), tend to pay off. Firms that build capabilities to manage their external partnerships have been shown to be better performers when lowering transaction costs (Dyer, 1997), enhancing the flexibility of their partnerships (Teece, Pisano and Shuen, 1997) and reducing their dependency on the environment (Finkelstein, 1997).

Interfirm NPD partnership dynamic capabilities have been formally defined by Teece et al. (1997, p. 517) as "the ability to integrate, build and reconfigure internal and external competencies to address rapidly-changing environments". The role of dynamic capabilities is the transformation of existing resources into new functional competencies that better match the environment (Eisenhardt and Martin, 2000). In fact, Teece et al. (1997, p. 515) proposed the term dynamic to reflect "the capacity to renew competences so as to achieve congruence with the changing business environment". For example, dynamic capabilities enabled Hewlett-Packard to
transform its existing NPD competencies in manufacturing outdated plotters into building small printers that better served customer needs.

Reconfiguration describes the process of creating novel configurations of functional competencies that better adapt to the changing environment (Henderson and Cockburn, 1994). The reconfiguration process is essentially the outcome of dynamic capabilities, that is, the achievement of favorable configurations of functional competencies that match the environment. Reconfiguration is particularly relevant in NPD where new products are creative adaptations of existing ones.

Following the dynamic capabilities literature, to achieve effective reconfiguration, a set of enabling processes must be undertaken: First, learning is an essential problem-solving process that is needed to reconfigure existing functional competencies by building new knowledge (Zollo and Winter, 2002). Learning is, therefore, a primary enabler of reconfiguration.

Coordination is another key process that enables reconfiguration. Teece et al. (1997, p. 519) notably argue "..... capability is embedded in distinct ways of coordinating" (p. 519). New configurations of functional competencies require new ways of allocating resources (Helfat and Peteraf, 2003), assigning tasks (Eisenhardt and Brown, 1999), and coordinating activities (Henderson and Clark, 1990). Resource allocation, task assignment, and activity synchronization are key components of effective coordination (Crowston, 1997).

Integrating is another fundamental component of reconfiguration because new configurations of functional competencies are "supraindividual" and require integrated patterns of interaction (Zollo and Winter, 2002). The NPD literature also emphasizes that interaction of pattern integration is necessary for new configurations of functional competencies (Jansiti and Clark, 1994). Summarizing these arguments, learning, coordinating, and integrating are the key processes that constitute dynamic capabilities by enabling the reconfiguration of existing resources into new functional competencies.

Because dynamic capabilities enhance the flexibility of interfirm NPD partnerships (Teece et al., 1997) and enable them to adapt to the changing environment
(Finkelstein, 1997), it is proposed that interfirm NPD partnerships with superior dynamic capabilities will have superior new product success and superior product commercialization. The strategic potential of dynamic capabilities is reflected in achieving superior configurations of functional competencies that better match the environment (appropriate), are faster (timely), and cheaper (efficient) than competitive NPD partnerships.

Interfirm NPD partnerships that learn better and faster (superior absorptive capacity) are more likely to achieve superior functional competencies (Danneels, 2002). Also, more appropriate and efficient coordination (superior coordination capability) and faster integration (superior collective mind) are more likely to enable superior configurations of new functional competencies (Crowston, 1997). Applied to the NPD context, empirical evidence has shown that dynamic capabilities help build superior new products (Henderson and Clark, 1990) and facilitate product quality and cycle time (Iansiti and Clark, 1994).

In contrast, NPD firms that were slow in shaping their functional competencies were shown to end up with rigidities (Leonard-Barton, 1992). That is, once core competencies, such as a product or knowledge database, are established, they tend to be resistant to changes in the business and technical environment and become rigidities (Leonard-Barton, 1992).

2.3 Summary of the Literature Review

In summary, strategic choices available to firms facing a competitive market place include defensive strategies, joint ventures, diversification and intensive growth strategies, all of which endow the firm with distinctive competencies. Intensive strategies include market penetration, market development and product development. Market penetration seeks to increase market share for present products or services in present markets while market development involves introducing present products or services into new geographic areas.

Product development entails introducing new products and services into the current market segment. Market penetration is achieved using intensive distribution and sales methods and advertising aimed at creating “demand-pull”. Market development can imply new market segments, new distribution channels or new geographic markets.
Finally, product development requires the development of new competencies and requires the business to develop modified products that can appeal to existing markets.

Various studies identify strategic responses occasioned by liberalization (Wamathu, 1999; Wairachu, 2001; Chepkwony, 2001; Isaboke, 2001; Okolo, 2002; Sang, 2005 and Kahira, 2006). None of these, and indeed no other study known to the researcher, has examined the use of intensive growth strategies by Total Kenya Limited in response to liberalization. This is the gap that this study aimed to fill.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design
This study used a case study design. As Mugenda and Mugenda (1999) observe that a case study is an in-depth examination of an institution. Owing to its focus on detail, the case study revealed most aspects through which intensive growth strategies have enabled Total Kenya Limited to compete effectively in the changing oil industry. The detailed case study elucidated the various aspects through which intensive growth strategies have been used to secure competitiveness.

3.2 Operationalizing the Variables
The various intensive growth strategies were operationalized in a two stage format. The first stage involved broad dimensions that operationalize the three growth strategies and the second employed the relevant issues that support the broad dimensions. For example, if encouraging existing customers to buy more frequently operationalized the market penetration strategy, then rewarding these customers supported frequent purchases.

The respondents were then asked to briefly comment on the factors that have influenced the choice of each strategy. They were also asked to comment on how the broad dimensions have influenced the firm's market share. Both of these procedures were done using open-ended questions.

Tables 1, 2 and 3 show the three intensive growth strategies, the broad dimensions, the relevant issues and the relevant question as they appeared in the interview guide.
<table>
<thead>
<tr>
<th>Broad Dimension</th>
<th>Relevant Issues</th>
<th>Relevant Question</th>
</tr>
</thead>
</table>
| Encourage existing customers to buy more frequently | -Discounts  
-Improve quality  
-Price reductions  
-Product benefit advertising  
-Provide privileges  
-Reward frequent users | 1 |
| Develop different usage for products    | -After sales support  
-Discounts  
-Free demonstrations  
-Free trail  
-Innovation  
-Low prices | 2 |
| Encourage switching                     | -Educate customers about product  
-Exclusive distribution  
-Improve quality  
-Increase access  
-Lower price  
-Offer free samples  
-Product comparison advertising  
-Selective distribution to non-Customers | 3 |
| Encourage purchase of bigger quantities per transaction | -Advertising  
-Develop different uses  
-Different tariffs  
-Discounts  
-Price discrimination  
-Rewards | 4 |
Table 2: Market Development Strategy

<table>
<thead>
<tr>
<th>Broad Dimension</th>
<th>Relevant Issue</th>
<th>Relevant Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>New distribution channels</td>
<td>- Exclusive distribution-use 1 channel</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>- Intensive distribution-use all channels</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Opening of new outlets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Selective distribution-use limited channels</td>
<td></td>
</tr>
<tr>
<td>New geographical markets</td>
<td>- Global expansion</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>- Regional geographical markets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Strategic alliances</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Target new sub-sectors in current market</td>
<td></td>
</tr>
<tr>
<td>Target a new customer segment</td>
<td>- Customer support &amp; after sales service</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>- Demographic profiling-new segment needs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Personal selling</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Sales promotions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Target non-users of your products</td>
<td></td>
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<tr>
<td>New product dimensions or</td>
<td>- Branding</td>
<td>8</td>
</tr>
<tr>
<td>packaging</td>
<td>- Customize to new segments needs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Vary packaging</td>
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</tbody>
</table>

Table 3: Product Development Strategy

<table>
<thead>
<tr>
<th>Broad Dimension</th>
<th>Relevant Issue</th>
<th>Relevant Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differentiated product features</td>
<td>- Improvements in product quality</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>- Innovative packaging</td>
<td></td>
</tr>
<tr>
<td>New products targeting current customers</td>
<td>- Limited rollout or test marketing-to gauge market acceptance and test alternative mixes</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>- Marketing research-determine existing and new needs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Product life cycle models-determine when existing products should be replaced with newer, more profitable products</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Promoting research and development</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Use of focus groups for new product Information</td>
<td></td>
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<tr>
<td>Product quality segmentation to target</td>
<td>- Quality modifications</td>
<td>11</td>
</tr>
<tr>
<td>different income levels</td>
<td>- Tiered pricing</td>
<td></td>
</tr>
<tr>
<td>Products that serve different customer</td>
<td>- Concept tests to gather data on purchase likelihood, product importance, perceived</td>
<td>12</td>
</tr>
</tbody>
</table>
needs for current customers

- product quality and perception of specific product attributes
  - Conjoint analysis-assesses perceptual market position, optimal product attributes combination and predicts consumer preferences
  - Ethnography-observational research that infers new needs
  - Home usage tests & studies

Products that serve emergent needs

- Collect point of sale/scanner data-to analyse trends, test new products, plan product introductions and forecast sales volume
- Conducting attitude and usage studies
- Synectics- structured group process for generating product ideas
- The Delphi technique-forecasting new product sales utilizing a panel of experts

### 3.3 Data Collection

Primary data was collected using an interview guide (Appendix 2) consisting of open-ended questions. This ensured clarification and in-depth probing of respondents. Mugenda and Mugenda (1999) note that interview guides make it possible to obtain data to meet the research objectives. The guides were administered to 5 managers in Total Kenya Limited who were deliberately chosen to ensure that only those at the strategy development and implementation level were selected. These had the information required.

### 3.4 Data Analysis

Data was analyzed using content analysis. Content analysis is the systematic qualitative description of the composition of the materials of the study. Its purpose is to analyze given information in order to determine factors that explain a given phenomenon. The information gathered was analyzed to seek explanations regarding the use of intensive growth strategies by Total Kenya Limited.
CHAPTER FOUR
FINDINGS AND DISCUSSIONS

4.1 Introduction
This chapter outlines the findings of the research in relation to the objectives of the study. The study had three objectives, namely, to determine the extent to which Total Kenya Limited has pursued intensive growth strategies, to establish factors that have influenced the choice of such strategies and to determine the influence of these strategies on the firm’s market share.

4.2 Information on the Respondents
The 5 senior managers who responded were the card sales manager, the shop and food services manager, the export logistics manager, the Liquefied Petroleum Gas (LPG) manager and the lubricants manager. The export logistics manager and the lubricants manager had served the longest in the firm with the former serving 15 years and the latter 10 years. The rest had served for between 4 and 7 years. These periods were considered sufficient for the managers to have an in-depth understanding of the company’s strategy.

Regarding their roles in the formulation and implementation of strategy in the firm, the LPG manager was charged with the function of obtaining market intelligence on developments in the LPG market. This also entailed developing and implementing the best strategy for the LPG cylinder business working in conjunction with the commercial manager. The card sales manager’s role in strategy involved developing and implementing annual action plans covering the financial and marketing activities in the fuel card business.

The shop, food and services manager’s role entailed formulating, implementing and evaluating strategies relating to shop, food and services in the network. Export logistics involved developing pricing, logistics and sourcing strategy for export products while the lubricant manager did the same for the lubricant business.
4.3 Intensive Growth Strategies Adopted by Total Kenya Limited

This section presented the findings in relation to the objectives of the research, namely, how Total Kenya has pursued the intensive growth strategies of market penetration, market development and product development; factors that have influenced the choice of these strategies and the influence of these strategies on market share.

4.3.1 Market Penetration

All 5 respondents stated that the company does encourage its customers to buy more frequently. Strategies used to this end included pricing lower than the competition and offering price discounts, value added services, promotions, merchandising, customer care, offering prices with expiration dates and provision of international crude oil price evolution on a weekly basis. Of these, as Chapman (2006) observes, penetration pricing techniques will be highly effective since demand for oil has a high price elasticity. A successful penetration pricing strategy may lead to large sales volumes and economies of scale, which justify the use of penetration pricing strategies to gain market share. As Assael (1993) notes, value added services tend to promote complimentary and captive products, such as additives and accessories.

Products that the customers were encouraged to purchase more frequently included bulk LPG, bulk white oil products (PMS, fuel oil and AGO) and engine oil. Non-core business products (from the shop, food and service division) bought frequently included non-alcoholic beverages and phone cards (from the Total shops). On further probing, it emerged that the firm also encourages its existing customers to buy more frequently through price discounts on bulk purchases and improved product quality offering. Factors that have stimulated the firm to encourage increased purchases included competition (from Mobil and Chevron), the need to meet sales targets (both volume- and margin-based), the need to consolidate the fuel card business in which the firm is a market leader, to increase market share and improve cash flows. Non-core business (Total shops) growth incentives came mainly from decreasing fuel margins that motivated the need to develop alternative margins. According to all the respondents, encouraging customers to buy more has led to increased market share in all business segments.
The firm developed new usage for its products through identifying new customer needs and then customizing the products to serve these needs. The firm had developed the fuel card as a business object through enabling different kinds of purchases to be made through it. Also, gas cylinders have been customized for different usages e.g. the “Meko” burner. These burners are an innovation where the cylinder has an adapter which carries the burner and thus has both cylinder-gas burner functionalities. It also retails at low cost and initially, the firm promoted its use through demonstrations and free trial as well as after sales support to drum up consumer confidence. Factors that have motivated the need to develop different usages for the company’s products include changing customer perceptions and needs and the need to remain a market leader. Further probing revealed that the company has maintained its position as a market leader in the fuel cards and 6 kg gas cylinder category.

Management also encouraged switching from competitor products. This was mainly through creating awareness on the superiority of Total’s products (product comparison advertising), price reductions, selective discounting, events marketing, value added services such as oil analysis, targeting customers dissatisfied with competitor products (selective distribution), providing higher quality products, avoiding stock outs and timely deliveries. On further probing, the Lubricants Manager pointed out that the company is strong in the area of industrial lubricants and has established a laboratory for testing of such lubricants. It is the only facility of its kind in East Africa and the company has leveraged this strength to encourage switching from competitor products. Investment in bulk import storage facility for LPG in Mombasa will ensure that it never suffers shortages.

Allen (2006) observes product comparison advertising is useful where the firms' offering is one of several providing similar capabilities, and the offering has superior features. Selective distribution involves Total using a limited number of outlets in a geographical area to sell products (Kotler and Armstrong, 2001) and would have been enhanced by price reductions and selective discounting.

Customers have been encouraged to switch to organic coolants, fuel card (bon voyage card targeting the upmarket consumers), all lubricants, bulk fuels and bulk gas. Improved product and service quality, low prices, good customer relations, innovation
e.g. introduction of the swipe card and General Service Mobile (GSM) to improve data collection and introduction of Total shops are factors that have influenced customer switching to the firm's products. Innovation has essentially created value added features to the core product. Further probing confirmed some of the value added features as automatic ignition burners for the "Meko" and a customizable fuel card to meet customer requirements. Encouraging switching has led to increased sales and profitability, higher return on assets and growth in market share.

Total encourages customers to buy bigger quantities through offering volume discounts for bulk purchases and through conducting product promotions. Discounts encourage increased purchase from price sensitive customers. All core and non-core business products are similarly marketed. The firm has been motivated to encourage bulk purchases through the prospect of better sales margins, increased market share and profitability among others. Overall, this has led to an improved market share for the firm. Also, the export sales manager noted that this has also "improved allocation of product share at the Kenya Pipeline Company (KPC) loading depots".

4.3.2 Market Development

Three respondents responded that the firm operates new distribution channels. This is done through analyzing supply gaps in the market and then deciding where to locate the channels and also opening new LPG outlets. The LPG manager observed that cylinders are sold using containers located in areas not served by petrol stations. For LPG, this strategy is a form of selective distribution, which Allen (2006) describes as wholesale sales using intermediaries or "middle-men" to distribute the product or service to the retailers. The LPG Manager on further probing responded confidently that none of the firm's competitors have ventured into using selective distribution through container outlets.

The shop, food and services manager also observed the use of kiosks at different stations targeting non-core business activities e.g. drinks. The manager also observed the need to grow and optimize on available space as drivers of new outlet development. Other reasons cited were customer demand, the threat of reduced sales, the need to promote better margins and the heightened competitive environment. New channels have increased the firm's market share.
Other than the card sales manager, the other four respondents agreed that the firm does identify new geographical markets. For the card business, the manager maintained that the Total group does not promote loyalty programmes but instead partners with franchised car dealers like Toyota and DT Dobie. As Chapman (2006) observes, the firm develops new fuel card business by reaching new sub-sectors within the current market aided by franchising. The shop, food and services business identifies new geographical areas through benchmarking different regions.

The LPG wing targets sub-sectors in the current market and new towns e.g. Nakuru, Eldoret and Njoro. The lubricants wing targets representation in unrepresented areas where they have no distributors e.g. Meru, Kitale and Kisii or what Proctor (2000) terms as new distribution channels market development strategy. The export and logistics manager cited the use of “strategic alliances, regional expansion strategy”. Other new markets identified include Lokichoggio, Meru, Eldoret, Njoro, Mombasa, Isiolo and Rongai. Regional markets include Sudan, Uganda and Burundi. Sargeant and West (2001) describe these as completely new geographic markets. Untapped potential and increased market share are factors that have motivated a push into the new geographical markets.

Personal selling, targeting non-users was one way of targeting new customer segments. On further probing, it emerged that in order to encourage conservation of the country’s forests, the company has endeavoured to make gas more affordable to those who would otherwise use charcoal and firewood. Other ways of targeting new customer segments include sales promotions, product innovations targeting new needs and usage demonstrations especially for the LPG line. The card business targets station debtors to use the fuel card to help manage debt. Through this, the firm has also targeted fleet transporters as new consumers of its fuels, power generators, manufacturers and new lubricant distributors for its lubricants business. On further probing, it also emerged that the Quartz 7000 and 9000 range of lubricants targets customers who require higher service mileage for their vehicles and are premium priced. The Quartz 5000 and 2500 range targets customers who prefer lower service mileage for their vehicles and are more affordable to the majority.
New customer segments are also targeted through customer support and after sales service. Further probing revealed that the firm installs bulk equipment free on loan basis at customer premises to ensure sufficient stocks for smooth operations. The service entails supply of equipment, installation, commissioning and free maintenance. Where the customer has pre-existing equipment, the firm confirms safe use before deliveries at reasonable interval thereafter. All installations conform to industry and best health, safety and quality standards.

The firm introduces new product dimensions or packaging through analysis of supplier needs and customer packages. Branding is another way of promoting new product dimensions. The shop, food and service sector has introduced new product dimensions through introduction of coffee at the shops and the repackaging of Coca-Cola into smaller packages. The lubricants section has introduced one-litre packs for Quartz 7000 instead of the half-litre packs.

The shop, food and service section was motivated to introduce new product dimensions by customer needs and requirements. In the lubricants division, the motivators were not only market driven, but also the need to achieve economies of scale and lower unit costs. In the card business, reconfiguring the business to better serve customer needs increased market share from 38% to 47%.

4.3.3 Product Development
The Total group differentiates its products through quality, innovative packaging and branding. In particular, LPGs are differentiated by size, the cylinder branding and regulator design. Further probing on the size showed that the company offers the widest range of LPG packaging. These are the 50 kg, 22.5 kg, 12.5 kg, 6 kg ‘Meko’ and 3.5 kg ‘Baby Meko’. Fuel cards are customized to their individual owners needs. Products whose features are differentiated include Quartz and Rubia brands of lubricants, JET-A1 fuel, gas cylinders, fuel cards and car wash and service facilities. Factors that motivated the need to differentiate include the competition, customer needs and market segmentation.

The firm develops new products targeting current customers through importing new products, conducting customer usage surveys, trend analysis and gap analysis.
further probing, it was apparent that special imports according to customer specific requirements are readily available through sister companies worldwide at short notice. As seen, customer usage surveys comprise market research activities which provide a means for understanding the consumer purchase decision and anticipating consumer behaviour. In the product development process, trend and gap analysis focuses on identifying opportunities for product innovation and understanding the evaluative criteria used by the consumer in reaching a purchase decision (May-Plumlee and Trevor, 2006).

The firm has developed new products such as insecticides, synthetic lubricants, car care products and selling mobile phones. The shop, food and service division segments its products by quality to target different income levels. This is through pricing. The kiosk concept targets the low income rural customer, the total shop is targeted at the peri-urban customer, while the bon voyage concept targets the high net worth consumer. Lubricants are developed based on predefined customer segments. LPGs on the other hand are segmented based on capacity and cost.

Lubricants are segmented based on quality targeting different income groups and include Quartz 2500; 5000; 7000 and 9000 series at the station outlets and Quartz Super HD at the reseller markets. In the shop, foods and services division, products segmented along quality lines include condoms and scratch cards. Customer price sensitivity and need to increase volumes and market share are some of the segmentation drivers. Exports and fuel cards have however not been segmented along quality lines.

The firm has not developed lubricants and LPG that serve different needs for current customers as the need served by lubricants does not change. The fuel card business develops new products through customizing reports to meet different customer needs through customer calls and visits. Other new product development strategies include concept testing and observational research. Products developed this way include low sulphur diesel, FO125, FO180 and unleaded PMS. For card sales, factors that have influenced new product development are the risk of losing business to alternative fleet solutions and to offer value added services.
The firm develops products that address emergent needs through importing from the firm’s home country in France. Other methods include using a panel of experts and customer feedback. The card business has developed extranet software through which customers log in to retrieve information. Fuels developed in this respect include low sulphur diesel, JET-A1 fuels and unleaded fuels. The shop, food and service division has also introduced M-PESA services at all stations.

The firm has also imported food grade lubricants for the food industry e.g. Delmonte and Kenya Cooperative Creameries (KCC). Factors that have spurred development of lubricants serving emergent needs include customer needs, health, safety, quality and environmental considerations. Others include technology and government regulations. There is also the existence of illegal resellers and counterfeits in the LPG market. Developing products that serve emergent needs has contributed towards the company’s growth in market share.
CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter summarizes the findings, draws conclusions relevant to the research, and makes recommendations on the same.

5.2 Summary
The three objectives of the research were to determine the extent to which Total Kenya Limited has pursued intensive growth strategies; to establish factors that have influenced the choice of such strategies and to determine the influence of these strategies on the firm’s market share. Under market penetration, customers were encouraged to buy more frequently through price reductions/discounts, value added services, promotions, merchandising and customer care. Products that the customers were encouraged to purchase more frequently included bulk LPG, bulk white oil products and engine oil. Factors that stimulated the firm to encourage increased purchases included the competition, sales targets, increased market share and decreasing fuel margins.

The firm developed new usage for its products through identifying new needs and then customizing the products to serve those needs. Gas cylinders have been customized for different usages. Factors that have motivated this need include changing customer needs and market share. Switching from competitors products was done through product comparison advertising, price reductions, selective discounting, events marketing, selective distribution and quality offerings. Customers have been encouraged to switch to organic coolants, fuel cards, all lubricants, bulk fuels and bulk gas. Improved product and service quality, low prices, good customer relations and innovation are factors that have influenced customer switching. Switching has led to increased sales and profitability and higher return on assets.

Total encourages customers to buy bigger quantities through volume discounts for bulk purchases and conducting promotions. Discounts encourage increased purchase from price sensitive customers. All core and non-core business products are similarly
marketed. The firm has been motivated to encourage bulk purchases through the prospect of better sales margins, increased market share and profitability among others.

Under market development, the firm operates new distribution channels through analyzing supply gaps and then deciding on location. New LPG outlets were opened using containers located in areas not served by station outlets. Reasons for channel development include increased demand, better margins and the competitive environment. New channels have increased market share. When targeting geographical markets, the card business partners with franchised car dealers like DT Dobie. The LPG wing targets sub-sectors in the current market and new towns. The lubricants wing targets representation in unrepresented areas where they have no distributors. The export and logistics business used strategic alliances, regional expansion strategy.

New customer segments were developed through targeting non-users (personal selling), sales promotions, product innovations targeting new needs and usage demonstrations. The card business has targeted fleet transporters as new consumers of its fuels, power generators, manufacturers and new lubricant distributors for its lubricants business. The firm introduced new product dimensions or packaging through analysis of supplier needs and customer packages. Branding is another way of promoting new product dimensions. The shop, food and service sector has introduced new product dimensions through introduction of coffee at the shops and the repackaging of coca cola into smaller packages.

The shop, food and service section was motivated to introduce new product dimensions by customer needs and requirements. In the lubricants division, the motivators were not only market driven, but also the need to achieve economies of scale and lower unit costs. In the card business, reconfiguring the business to better serve customer needs increased market share from 38% to 47%.

Finally, with respect to product development, The Total group differentiates its products through quality, innovative packaging and branding. LPGs are differentiated by the cylinder branding and regulator design while fuel cards are customized to their individual owners’ needs. Products whose features are differentiated include gas
cylinders and fuel cards. Factors that motivated the need to differentiate include the competition, customer needs and market segmentation.

For card sales, factors that have influenced new product development are the risk of losing business to alternative fleet solutions and to offer value added services. Factors that have spurred development of lubricants serving emergent needs include customer needs, health, safety, quality and environmental considerations. Others include technology and government regulations. There is also the existence of illegal resellers and counterfeits in the LPG market. All these three intensive growth activities have resulted in business growth and increased market share.

5.3 Conclusion
Increased usage, development of new usage and purchase in bigger quantities were the most frequently used market penetration activities. Overall, market penetration appears to have been the most widely used intensive growth strategy. Market development was largely done through targeting non-users in the current market, through opening new distribution channels in new markets and via geographical expansion. Finally, product development is largely done by introducing new products from the firm’s branches overseas, conducting customer usage surveys, trend analysis and gap analysis.

5.4 Limitations of the Study
Total group is a French firm and there are aspects of the French management approach that may differ from the English speaking western firms that the study may have not broached. The theory base upon which the study was based is largely developed and practiced in the English speaking western countries and may have required cultural adaptations to suit the French system of management. The common resource limitations of time and money were also encountered in conducting the study.

5.5 Recommendations
The study will recommend that Total Kenya make intensive but strategic use of the three Ansoff growth opportunities. It is possible for the firm to increase its market presence in Kenya through market penetration that may entail increasing market coverage in growth areas locally and in the region, most of which are poorly served in
relation to distribution networks. This will reduce the cost of fuel in these areas and increase access. Market development can also be intensified regionally, given the many opportunities present, especially with oil discoveries in Uganda and Southern Sudan. Opportunities for product development do exist as Total could borrow ideas from its parent company and have the advantage of low introduction costs.

5.6 Suggestions for Further Research

This study looked at the three aspects of the Ansoff's growth strategies, namely market penetration, market development and product development. The fourth aspect of diversification was not within the scope of the study. This study suggests that a new research be conducted that study's how the diversification strategy has been used by the firm. In particular, the study will venture into related and unrelated areas of diversification. The former entails a review of the use of vertical and horizontal integration.

Vertical integration in turn studies how the firm has engaged in backward integration activity i.e. supply chain involvement and forward integration activity i.e. retail activity. Horizontal integration will study Totals involvement in markets that have synergies with the oil industry in general, such as the development of alternative energy sources. Finally, unrelated diversification studies the firm's ventures into completely new areas of business totally different from the oil or energy industry.
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University of Nairobi
School of Business
P.O. Box 30197
Nairobi, Kenya

Date: 18 November 2008
Telephone: +254 (020) 732160
Telegrams: “Varsity”, Nairobi
Telex: 22095 Varsity

To Whom It May Concern

The bearer of this letter: __________________________________________

Registration Number: ______________ Telephone: ___________________

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

The student is required to submit, as part of the coursework assessment, a research project report on a given management problem. We would like the students to do their projects on real problems affecting firms in Kenya today. We would therefore appreciate if you assist the student collect data in your organization to this end. The results of the report will be used solely for purpose of the research and in no way will your organization be implicated in the research findings. A copy of the report can be availed to the interviewed organization(s) on request.

Thank you,

The Coordinator, MBA program
Appendix 2: Interview Guide

PART 1

1. Please indicate your functional title

2. Please indicate the number of years worked in the company

3. What is your role in the formulation and implementation of strategy in the company?
PART 2

A. Market Penetration

This is the name given to a growth strategy where the business focuses on selling more of existing products into existing markets.

1. Do you encourage your customers to buy more frequently? Yes/No _____
   a. How do you encourage them?

   b. What products do they buy more frequently?

   c. What factors have influenced you to encourage your customers to buy more frequently?

   d. What is the influence of encouraging your customers to buy more frequently on your market share?

2. Do you develop different usage for your products? Yes/No _____
   a. How do you develop different usage for your products?

   b. What products have you developed different usage?
c. What factors have influenced you to develop different usage for your products?

________________________

________________________

d. What is the influence of developing different usage for your products on your market share?

________________________

________________________

3. Do you encourage your competitor's customers to switch to your products?  
   Yes/ No ______
   a. How do you encourage them?

________________________

________________________

b. What products have you encouraged your competitor's customers to switch to?

________________________

________________________

c. What factors have influenced you to win over your competitors customers?

________________________

________________________

d. What is the influence of winning your competitors customers on your market share?

________________________

________________________

4. Do you encourage your customers to purchase bigger quantities per transaction? Yes/No __________
   a. How do you encourage them?
   ________________________________
   ________________________________
   ________________________________
   ________________________________
   ________________________________
   b. What products do you encourage your customers to purchase in bigger quantities per transaction?
   ________________________________
   ________________________________
   ________________________________
   ________________________________
   ________________________________
   c. What factors have influenced you to encourage your customers to purchase bigger quantities?
   ________________________________
   ________________________________
   ________________________________
   ________________________________
   ________________________________
   d. What is the influence of encouraging your customers to purchase bigger quantities on your market share?
   ________________________________
   ________________________________
   ________________________________
   ________________________________
   ________________________________

B. Market development
This is the name given to the growth strategy where the business seeks to sell its existing products into new markets.

5. Do you introduce new distribution channels into the market? Yes/No __________
   a. How do you introduce new distribution channels into the market?
   ________________________________
   ________________________________
   ________________________________
   ________________________________
   ________________________________
   b. What new distribution channels have you introduced into the market?
   ________________________________
   ________________________________
   ________________________________
   ________________________________
   ________________________________
c. What factors have influenced you to introduce new distribution channels?


d. What is the influence of new distribution channels on your market share?


6. Do you identify new geographical markets? Yes/No
   a. How do you identify new geographical markets?


   b. What new geographical markets have you identified?


   c. What factors have influenced you to identify new geographical markets?


   d. What is the influence of new geographical markets on your market share?


7. Do you target new customer segments? Yes/No
   a. How do you target new customer segments?


   b. What new customer segments have you targeted?
c. What factors influence you to target new customer segments?


d. What is the influence of new customer segments on your market share?


8. Do you introduce new product dimensions or packaging? Yes/No __
a. How do you introduce new product dimensions or packaging?


b. What new product dimensions or packaging have you introduced?


c. What factors have influenced you to introduce new product dimensions or packaging?


d. What is the influence of new product dimensions or packaging on your market share?


C. Product development

This is the name given to the growth strategy where a business aims to introduce new products into existing markets.

9. Do you differentiate your product features? Yes/No __
a. How do you differentiate your product features?
b. What products have you differentiated their features?


c. What factors influence you to differentiate your product features?


d. What is the influence of differentiated product features on your market share?


10. Do you develop new products targeting current customers? Yes/No _____
a. How do you develop new products targeting current customers?


b. What new products have you developed targeting current customers?


c. What factors have influenced you to develop new products targeting current customers?


e. What is the influence of new product development on your market share?
11. Do you segment your products by quality to target different income levels?
   Yes/No ____
   a. How do you do that?
   b. What products have you segmented by quality to target different income levels?
   c. What factors have influenced you to segment your products by quality?
   d. What is the influence of product quality segmentation on your market share?

12. Do you develop products that serve different needs for current customers?
   Yes/No ____
   a. How do you develop products that serve different customer needs?
   b. What products have you developed to serve different customer needs?
   c. What factors have influenced you to develop products that serve different customer needs?
d. What is the influence of developing products that serve different customer needs on your market share?

13. Do you develop products that serve emergent needs? Yes/No 
   a. How do you develop products that serve emergent needs?
   b. What products have you developed to serve emergent needs?
   c. What factors have influenced you to develop products that serve emergent needs?
   d. What is the influence of developing products that serve emergent needs on your market share?

Thank you for your participation and co-operation in completing this interview