COMPETITIVE STRATEGIES ADOPTED BY COSMETIC BUSINESSES WITHIN NAIROBI CENTRAL BUSINESS DISTRICT

BY

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DECLARATION

STUDENT'S DECLARATION

I declare that this project is my original work and has never been submitted for a degree in any other university or college for examination/academic purposes.

Signature: …………………………… Date: …………………………………

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D61/61651/2010

SUPERVISOR'S DECLARATION

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

Signature: ………………………….. Date: ……………………………………

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DEDICATION

I dedicate this work to my loving husband for his patience, support and encouragement during my studies and through the completion of this project.

ACKNOWLEDGEMENTS

I take this opportunity to give thanks to the Almighty God for seeing me through the completion of this project.

I am indebted to all those who helped me ensure the success of this project. I would particularly like to thank the cosmetic business owners and managers within the Central Business District who took the time to respond to my questionnaire. I thank the research assistants who helped with data collection, my family for their never ending prayers, support and encouragement. Special thanks go to my husband Charles for providing the inspiration and encouragement I needed throughout my MBA course.

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ABSTRACT

The cosmetic industry in Kenya has in the past few years experienced a lot of change and growth which has affected the state of competition. This study was guided by two research objectives: to determine the competitive strategies adopted by cosmetic businesses in Nairobi Central Business District and to establish the challenges that cosmetic businesses in Nairobi Central Business District face in implementing the competitive strategies adopted. The study adopted a descriptive survey design. The target population consisted of 100 cosmetic businesses within Nairobi Central Business District. The study used primary data collected using a questionnaire. The data collected in the proposed study was analyzed using descriptive statistics. This involved the use of frequency tables, percentages, rank ordering, and means scores. The study concluded that there was very strong competition among the cosmetic businesses hence, the need to develop competitive strategies. Some of the strategies adopted by these firms included product differentiation, cost leadership, offering quality customer services, opening for longer business hours, choosing a strategic business location and applying information technology in the operations. The study further concludes that cosmetic firms within the Central business District in Nairobi faced several challenges. Some of these challenges included strict government regulations, inadequate capital for expansion, competition from cheap imports and high competition from hawkers. The study recommends that the County Government find mechanisms of controlling the business of hawkers so as to enable the cosmetic firms sell their products at competitive prices. The study further recommends that cosmetic firms invest in research and development to develop new innovative ways of serving their customers. This study finally recommends that the cosmetic firms form an association to allow for collective bargaining of their rights and negotiations with the relevant authorities to ensure smooth operations of their businesses.

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CHAPTER ONE

INTRODUCTION

1.1 Background

According to Covin and Slevin (1989), small businesses are particularly susceptible to environmental influences due to limited resources and the devastating consequences of poor managerial decisions. According to Porter (1980), the ability of firms to survive in the business environment is dependent on their selection and implementation of a competitive strategy that differentiates the firm from competitors. The success of a company's competitive strategy therefore, depends on the formulation and implementation of an innovative strategy that is different from that of the business rivals in order to gain a competitive advantage over them. Through innovation, firms may become more responsive to customer needs (Kanter, 2008). This is not only likely to give the firms a competitive advantage but also enable them create new markets for their goods and services.

According to Porter (1985), competition is at the core of the success or failure of firms, it determines the suitability of a firm's activities that can contribute to its performance, such as innovation, a cohesive culture, or good implementation, it is the search for a favorable competitive position in an industry, the fundamental arena in which competition occurs and it aims to establish a profitable and sustainable position against the forces that determine industry competition.

The cosmetic industry in Kenya has in the past few years experienced a lot of change and growth which has affected the state of competition. This is an industry that has for a long time been known to be dominated by women making up the larger percentage of consumers for cosmetics; however, today men are becoming increasingly aware of their appearances and have contributed to the rise in demand for these products. The industry has witnessed the rise of many cosmetic businesses in both Rural and Urban centers, and particularly within the Nairobi Central Business District where most of these businesses seem to be concentrated within close proximity. The businesses compete to sell similar products to the same market and from the same suppliers. These and other factors have resulted in heightened environmental turbulence and uncertainty for cosmetic businesses and have therefore demanded that businesses formulate and implement competitive strategies in order to cope with the competition pressure by seeking profitable ways in which to differentiate themselves from, and to have a competitive edge over their rivals.

1.1.1 The Concept of Strategy

There is no single universally acceptable definition of strategy. Different authors and managers use the term differently (Mintzberg and Quinn, 1991). Recent researchers define strategy in light of environment (Coulter, 2005) while early scholars in the field emphasized on management based on objectives (Drucker, 1954). In defining strategy (Chandler, 1962) pioneered the proposition that structure follows strategy. He perceived strategy as the determination of long-term goals and assigning of resources to facilitate appropriate actions.

Ansoff (1987) focused on strategy capability gaps. According to him strategic planning is reactive. Hence, analysis is done to determine where the organization is and where it is anticipated to be and the strategies organizations adopt for repositioning. Mintzberg’s

(1987) view on strategy is that it is emergent. He argues that some organizations begin implementing strategies before they clearly articulate mission, goals, or objectives. In this case a strategy implementation actually precedes strategy formulation. He adds that strategy can be intended in which case it is deliberately planned by managers or it can be emergent, in which case it develops from everyday organizational activities.

Johnson and Scholes (1993) define strategy as the direction and scope of an organization over the long-term which attains advantage for the organization through its mobilization of resources within a challenging environment to meet the needs of markets and to fulfill stakeholder expectations. This definition therefore embraces the concept of strategic fit because their view is on how an organization matches its resources and capabilities with the opportunities in the external environment. Aosa (1992), states that strategy is about creating a fit between the external characteristics and internal conditions of an organization to solve a strategy problem. He describes the strategy problem as a mismatch between the internal characteristics of an organization and its external environment. The matching is achieved through the development of an organization's core capabilities that correlates to the external, enough to enable the exploitation of opportunities existing in the external environment and the organizations internal capabilities. Thompson & Strickland (1998) define strategy as the game plan that the management has for positioning the company in its chosen market in order to compete successfully, please its customers and also achieve good business performance. It thus involves choosing among alternatives. This reflects that the organization must be aware of the competition in order to position itself.

“Strategy is the direction and scope of an organization over the long-term: which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations” (Johnson, Scholes & Whittington, 2005, p. 3). Hence, strategy can be seen as the matching of the resources and activities of an organization to the environment which is sometimes known as a strategic fit. “Corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers, and communities.” (Andrews, 1971, pp. 18-19)

Mintzberg (1998) suggests five definitions of strategy as plan, ploy, pattern position and perspective. Strategy as a plan is deliberate and is developed in advance of action. As a ploy strategy is the threat to act in response to a competitor’s action. Strategy as a pattern is stream of actions with a consistency. As a position strategy is the company’s location in its external environment which allows it to compete effectively with other companies and strategy as a perspective is a view or concept shared by others in the organization Any organization or business needs a strategy, without a strategy an existing business can drift away from its customers and become uncompetitive within its environment and eventually stops making profit. Without a strategy an organization is like a ship without a rudder going around in circles and getting nowhere. A strategy provides a unified sense of direction to which all members of the organization can relate. Having a clearly defined strategy and effectively implementing it will determine the success in achieving any one of the organization's goals.

1.1.2 The Concept of Competitive Strategy

A company's competitive strategy consists of the business approaches and initiatives, to withstand competitive pressure and to strengthen its market position. It deals with management's action plan for competing successfully and providing superior value to the customers. This enables it to differentiate or put the company apart from its competitors. (Thompson & Strickland, 2003).

Porter (1980) describes competitive strategy as taking offensive or defensive actions to create a defendable position in an industry, to cope successfully with the five competitive forces which are; Threat of new entrants, threat of substitute products or services, bargaining power of suppliers, bargaining power of buyers and rivalry among existing firms and thereby yield a superior return on investment for the firm. Organizations which have analyzed their environment, understand the demands of their stakeholders and resources available, putting the organization in a position to make choices concerning strategy. Developing strategy involves deciding how to compete in different market segments. Competition is usually based either on keeping both costs and prices low or on adding value for the customer (Capon, 2008). Organizations therefore require an effective competitive strategy to operate successfully in a market where there is established and potential competition.

Competitive strategy is that part of business strategy that deals with management plan for competing successfully- how to build sustainable competitive advantage, how to outmaneuver your rivals, how to defend oneself against competitive pressure or how to strengthen the market's position (Thompson & Strickland, 1998). This shows that strategy is all about competition. It is however important to note that a good strategy is not enough; it has to be implemented in order to yield success. Organizations that have the capability of formulating and implementing effective competitive strategies achieve profitability and growth.

1.1.3 The Cosmetic Industry in Kenya

The cosmetic industry in Kenya dates back to the 1960's when multinationals; Johnson and Johnson, PZ Cussons, Beiersdorf, Unilever, and Sara Lee first entered the country. They have since been established after many years of trading and contribute about 35% of the market share (Word Cosmetics, 2007). The lack of direct representation by these multinationals provided the local companies with the opportunity for growth and enabled them market their products more aggressively.

Players in the cosmetic industry admit that the market has grown in leaps and bounds from what it was three years ago (Muthoni, 2013). Consumers are now more sophisticated and have become experts at using cosmetic products. They are also seeking more knowledge through industry experts (Situma, 2013). Kenyan women are becoming increasingly aware of how they look and will do whatever it takes to look good. According to Muthoni, (2013) on average a client spends anywhere between ksh 3,000 to ksh 25,000 a month on beauty needs, which is a demonstration that the Kenyan woman prioritizes her beauty needs in her prearranged budget. She further adds that men too have joined the band wagon and are seen making frequent visits to the beauty parlors for manicures, pedicures and haircuts. Here they use cosmetic products such as nail polish, shampoo and hair dye. It is also not unusual to see men visit the cosmetic shops to buy body lotion, cologne, lip gloss, hair treatment among other products.

Cosmetic multinationals have noticed the increasing demand for quality products and are now scrambling to get a cut in the market. With the entry into the Kenyan market by multinational companies like L'Oreal, Estee' Lauder, Revlon and Oriflame in a span of less than three years (Situma, 2013), joining the industry giants; Unilever Kenya Limited, Beiersdorf, East Africa limited and PZ Cussons East Africa limited, it is evident that the demand for cosmetic products is on the rise hence the market is not fully tapped. Local companies such as Haco Industries and Interconsumer Products Limited have not been left behind either. There is a big and growing market for their products.

1.1.4 Cosmetic Businesses in Nairobi CBD

Cosmetic businesses within Nairobi Central Business District commonly known as beauty shops play a key role in the Kenyan Economy; they provide employment for the Kenyan population and allow customers access both local and imported cosmetic products. The Nairobi CBD is the hub for cosmetic businesses in Kenya; it has the biggest and busiest wholesalers and retailers for cosmetic products. There are more than 100 cosmetic businesses within the Nairobi CBD. These businesses serve and compete for a big and growing market both in the rural and urban areas. They also have a big market in Eastern Africa and beyond, with Kenyans sending especially the local cosmetic products to their relatives and friends living abroad.

This market comprises of male, female and children consumers. The cosmetic businesses target individual consumers, hair salons, barber shops, beauty parlors and retail cosmetic businesses within the estates, in other urban towns, in the rural areas and beyond the Kenyan boarder. While Kenyans, particularly the women become increasingly aware of their appearance and appreciate the use of cosmetic products to enhance their beauty, the demand for these products is on the rise. The growing demand has attracted many investors into the industry and has witnessed the growth in the establishment of many cosmetic businesses within the CBD. The threat of new entrants into the industry and the continued rivalry among existing competitors has made cosmetic businesses within the CBD very competitive.

1.2 Statement of the problem

In today's highly competitive business environment, budget oriented planning and forecast-based planning methods are insufficient for an organization to survive and prosper. The firm must engage in strategic planning that clearly defines objectives and assess both internal external situation to formulate strategy, implement it, evaluate the progress, and make necessary adjustments to stay on track (Thompson and Strickland, 2003). This means that every organization or business regardless of the sector in which it operates should formulate and implement clearly defined competitive strategies in response to the turbulent environment.

Cosmetic businesses in Nairobi CBD operate in a very turbulent environment. Organizations are environment dependent and environment serving (Drucker, 1954; Chandler, 1962; Ansoff, 1987). These businesses experience competition from counterfeit products and from stolen authentic products that make their way into the market at a price lower than the market price. There are many cosmetic businesses opening every other day with hawkers selling some of the cosmetic products in the streets at a much lower price. Due to the close proximity of most of these cosmetic businesses they are forced to set prices within the same range considering the businesses sell similar products which are supplied to them by the same companies that supply their rivals. These cosmetic businesses have to therefore adopt competitive strategies in order to make profits and to gain competitive advantage over their rivals within a turbulent environment. (Ansoff, 1987; Mintzberg, 1987; Porter, 1987; Aosa, 2000 among others) agree that the link between the organization and the environment is the strategy.

Many studies have been done on competitive strategies that are adopted by different organizations or businesses. For instance, Obado (2005) conducted a study on the competitive strategies employed by sugar manufacturing firms in Kenya and found that these firms employ cost leadership, differentiation and focus to different degrees. Ndung'u (2011) conducted a study on the competitive strategies adopted by different players in the beer industry and her findings were that players in the beer industry in Kenya use cost leadership strategy, differentiation strategy, focus strategy and value disciplines as a competitive strategy. The studies conducted on competitive strategies adopted by various organizations have not focused on competitive strategies adopted by cosmetic businesses. Because research had not been done in this area, this study therefore sought to determine the competitive strategies adopted by cosmetic businesses in Nairobi Central Business District.

1.3 Objectives of the study

i. To determine the competitive strategies adopted by cosmetic businesses in Nairobi Central Business District.

ii. To establish the challenges that cosmetic businesses in Nairobi Central Business District face in implementing the competitive strategies adopted.

1.4 Value of the study

The findings of this study expounded the body of knowledge and provide a basis for further research for future scholars and academicians especially those focusing on cosmetic businesses as little has been done in this area, and also provide a source of literature for different competitive strategies adopted in business.

This study would be useful to existing and prospective investors by enabling them make informed and profitable decisions. It would also help them become more innovative when adopting new competitive strategies. It would shed light on the different competitive strategies adopted by different players in the market and also enable them craft ways to cope with and overcome the challenges faced in implementing these strategies. This would help them position themselves more competitively.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Literature review presents findings of other scholars and researchers on the subject of the study. It specifically covers the theoretical foundation of the study and the application of strategy in organizations.

2.2 Theoretical Foundation of the Study

In his definitive work on competitive strategy, Porter (1980) propelled the concept of strategy and competitiveness into the foreground of strategic thought and business planning. He argues that competitive advantage grows out of value a firm is able to create for its buyers that exceed the firm's cost of creating it. Value is what buyers are willing to pay and superior value stems from offering lower prices than competitors for equivalent benefit or providing unique benefits that more than offset a higher price. Companies face many challenges when attempting to gain market share and trying to maintain a competitive advantage over rivals. It can be difficult to know which strategies are worth pursuing based on a business' position in the industry and on the competitive nature of the industry itself. Michael Porter's "Five Forces of Competition Theory" is used as a tool to determine the principal competitive influence in a market. The nature and degree of competition in an industry hinge on five forces: the threat of new entrants, the bargaining power of customers, the bargaining power of suppliers, the threat of substitute products or services and rivalry among existing firms.

The essence of strategy is coping with the competition and appreciating how Porter's five forces shape a firm's business strategy. The purpose of competitive strategy is to establish a profitable and sustainable position against the forces that determine industry competition. Porter (1980) asserts that the corporate strategist's goal is to find a position in the industry where his company can best defend itself against the forces or influence them in his favor. Knowledge on the underlying five competitive forces provides the foundation for strategy formulation. The collective strength of these five forces determines the ultimate potential of an industry (Pearce & Robinson 2002, Porter 1998).

Potential competitors refer to the firms which are not currently competing in the industry but have the potential to do so if given a choice. Entry of new players increases the industry capacity, begins a competition for market share and lowers the current costs. The threat of entry by potential competitors is partially a function of extent of barriers to entry. The various barriers to entry are; Economies of scale, Brand loyalty, Government Regulation, Customer Switching Costs, Absolute Cost Advantage, Ease in distribution, and Strong Capital base. According to Johnson, Scholes and Whittington (2005), threat of entry will depend on the extent to which there are barriers to entry. These factors need to be overcome by new entrants if they are to compete successfully. These should be seen as providing delays to entry and not as permanent barriers to determined potential entrants. The seriousness of the threat of entry depends on the barriers present and on the reaction from existing competitors that the entrant can expect. If barriers to entry are high and a newcomer can expect sharp retaliation from the entrenched competitors, he or she obviously will not pose a serious threat of entering (Pearce and Robinson, 2007).

Rivalry among current competitors refers to the competitive struggle for market share between firms in an industry. Extreme rivalry among established firms poses a strong threat to profitability. The strength of rivalry among established firms within an industry is a function of; Extent of exit barriers, Amount of fixed cost, Competitive structure of industry, Presence of global customers, Absence of switching costs, Growth Rate of industry, and Demand conditions. Johnson, Scholes and Whittington (2005) define competitive rivals as organizations with similar products and services aimed at the same customer group. Rivalry among existing competitors takes the familiar form of jockeying for position using tactics like price competition, product introduction and aggressive advertising. Intense rivalry is related to the presence of a number of factors: If competitors are numerous or are roughly equal in size, if industry growth is slow precipitating fights for market share that involve expansion minded members. If fixed costs are high or the product is perishable, then there is a strong temptation to cut prices. If the product or service lacks differentiation or switching costs, which lock in buyers and protect one combatant from raids on its customers by another (Porter, 1985).

The bargaining power of the suppliers refer to the potential of the suppliers to increase the prices of inputs (labor, raw materials, services, etc) or the costs of industry in other ways. Strong suppliers can extract profits out of an industry by increasing costs of firms in the industry. Supplier’s products have a few substitutes. Strong suppliers’ products are unique. They have high switching cost. Their product is an important input to buyer’s product. They pose credible threat of forward integration. Buyers are not significant to strong suppliers. In this way, they are regarded as a threat. Suppliers can exert bargaining power on participants in an industry by raising prices or reducing the quality of purchased goods and services. Powerful suppliers therefore can squeeze profitability out of an industry unable to recover cost increases in its own prices (Pearce and Robinson, 2007).

Bargaining power of buyers refer to the potential of buyers to bargain down the prices charged by the firms in the industry or to increase the firms cost in the industry by demanding better quality and service of product. Strong buyers can extract profits out of an industry by lowering the prices and increasing the costs. They purchase in large quantities. They have full information about the product and the market. They emphasize upon quality products. They pose credible threat of backward integration. In this way, they are regarded as a threat. Customers can force down prices, demand higher quality or more service, and play competitors off against each other all at the expense of industry profits (Harvey, 1988).

Substitute products refer to the products having ability of satisfying customer needs effectively. Substitutes pose a ceiling (upper limit) on the potential returns of an industry by setting a limit on the price which firms can charge for their product in an industry. The lesser the number of close substitutes a product has, the greater the opportunity for the firms in industry to raise their product prices and earn greater profits (other things being equal). Substitution reduces demand for a particular class of products as customers switch to the alternatives, even to the extent that this class of products or services becomes obsolete (Johnson, Scholes & Whittington, 2005). Kotler (2001) stipulates that in modern business, e-commerce is fast becoming a substitute to supermarkets. The existence of close substitutes is a strong competitive threat because this limits the prices the companies in an industry can charge for their products and services. The power of Porter's five forces varies from industry to industry. Whatever the industry, these five forces influence the profitability as they affect the prices, the costs, and the capital investment essential for survival and competition in industry. This five forces model also help in making strategic decisions as it is used by the managers to determine industry's competitive structure.

2.3 Application of Strategy in Organizations

A strategy is the means by which long-term organizational objectives are achieved. Business strategies may include geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, liquidation and joint ventures. Strategies are potential actions that require top management decisions and large amounts of the firm's resources. In addition, strategies affect an organizations long-term prosperity, typically for at least five years and thus are future oriented. Strategies have multifunctional or multidivisional consequences and require consideration of both external and internal factors facing the firm. Formation of competitive strategies involves the consideration of four factors that determine the limits of what a company can successfully accomplish. These are the firm's strength, weaknesses, industry opportunities and threats (SWOT). Through environmental scanning the management can scan the external environment for opportunities and threats and internal environment for strengths and weaknesses.

Forming a successful organizational strategy involves creating a first-rate competitive strategy. Organizations must develop a plan that addresses ways to compete in their respective markets by first identifying their competitors. Three levels of strategy that exist in organizations have been distinguished. The first level is the corporate strategy which is often stated in the mission statement of the organization. Corporate strategy is concerned with the overall purpose and scope of the business to meet stakeholder's expectations. This is a crucial level since it is heavily influenced by investors in the business and acts to guide strategic decision making throughout the business. Business unit strategy is concerned more with how a business competes successfully in a particular market. It concerns strategic decisions about choice of products, meeting needs of customers, gaining advantage of competitors, and exploiting or creating new opportunities. Operational strategy is concerned with how each part of the business is organized to deliver the corporate and business level strategic direction. Operational strategy therefore focuses on issues of resources, processes, and people (Johnson and Scholes, 2007).

There are a variety of competitive strategies that organizations can adopt. Some of these are cost leadership, differentiation and focus. A firm can use these strategies to attain competitive advantage. These strategies are applied at the business unit level. They are called generic strategies because they are not firm or industry dependent (Porter, 1980). In cost leadership, a firm sets out to become the low cost producer within its industry. The firm sells its products either at average industry prices to earn profits higher than that of its rivals, or below the average industry prices to gain market share. In the event of a price war, the firm can maintain some profitability while the competition suffers losses. Even without a price war, as the industry matures and prices decline, the firms that can produce more cheaply will remain profitable for a longer period of time.

The cost leadership strategy usually targets a broad market. Firms acquire cost advantages by improving process efficiencies, gaining access to a large source of lower cost materials, making optimal outsourcing and vertical integration decisions or avoiding some costs all together. If rival firms cannot lower their costs by a similar amount, the firms may be able to sustain a competitive advantage based on cost leadership. Harvey (1988) describes cost leadership strategy as striving to be the overall low cost provider of a product or service that appeal to a broad range of customers. Successful cost leaders are exceptionally good at finding ways to drive costs out of their business.

In a differentiation strategy a firm seeks to be unique in its industry through the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the rival firm. The value added by the uniqueness of the product may allow the firm to charge a premium price for it with the hope that the higher price will cover the extra costs incurred in offering the unique product. Due to the products unique attributes, if suppliers increase their prices, the firm may be able to pass along the costs to its customers who cannot find substitute products easily. According to Ansoff (1988), a differentiation strategy is based on achieving an industry wide recognition of different and superior products and services compared to those of suppliers. This recognition can be accomplished through the design of special brand images, technology features, customer service or higher quality products, all of which have implications for the structure and operation of the companies.

The focus strategy concentrates on a narrow competitive scope or segment within an industry and within that segment attempt to achieve a cost advantage or differentiation. The focus strategy has two variants; cost focus and differentiation focus. In cost focus a firm seeks cost advantage in its target segment by exploiting differences in cost behavior in some segments. While in differentiation focus a firm seeks differentiation in its target segment by exploiting the special needs and wants of buyers in their niche market. The focus strategy is known as a narrow scope strategy because, because the business is focusing on a narrow (specific) segment of the market.

Some businesses however find themselves “stuck in the middle” Porter, (1980). They attempt to adopt all three strategies; cost leadership, differentiation and focus (niche). A business adopting all three strategies is known as “stuck in the middle”. They have no clear business strategy and are attempting to be everything to everyone. This is likely to increase running costs and cause confusion as it is difficult to please all the sectors of the market. “Stuck in the middle” businesses fail in their industry because they are not concentrating on one business strength (Porter, 1980). By separating the strategies into different units having different policies and different cultures, a business is less likely to become “stuck in the middle”.

In his study on Kenyan sugar manufacturing firms, Obado (2005) found that all the firms employed cost leadership strategies in the value chain activities. The firms also adopted differentiation by branding their sugar; they also used distribution networks and customer service. In his study which sought to investigate the strategies adopted by exhibition stalls to survive industry competition, Kariuki (2007) established that exhibition stalls applied low cost leadership, customer service and product differentiation strategies.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The research methodology is a road map that guide's the progress of the study and ensures that the objectives are met through answering the research questions. It is the procedures by which researchers go about their work of describing, explaining and predicting phenomena. This chapter covers the research design, data collection and analysis.

3.2 Research Design

The study adopted a descriptive survey design. Descriptive survey design is a method that enables one to gather data from relatively large number of subjects at a particular time and produces graphs and pie charts from data collected (Mugenda and Mugenda, 1999). A descriptive survey is concerned with the what, who, where and how of phenomena. A survey is considered more appropriate for a study involving relationships and comparative analysis.

3.3 Population

The target population for this study consisted of cosmetic businesses within Nairobi Central Business District. According to the PZ Cussons East Africa Limited data, there are 100 businesses that operate as cosmetic businesses within the Nairobi Central Business District. Given the small number of cosmetic businesses within the CBD, a census was carried out for this study; hence no sampling was done.

3.4 Data collection

Data collection was done using a questionnaire that has both structured and unstructured questions. The researcher with the help of two research assistants, collected data using face to face interview technique from business owners and business managers who administer business on behalf of owners. The structure of the questionnaire comprised of three sections; Section A focused on general background information, Section B focused on the competitive strategies adopted by the cosmetic businesses and Section C addressed the challenges faced in adopting different competitive strategies in the cosmetic business.

3.5 Data Analysis

The data collected in the study was analyzed using descriptive statistics. This involved the use of frequency tables, percentages, rank ordering, and means scores. The data collected was also analyzed using correlation analysis, which measures the strength and nature of the relationships among variables.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the data analysis and interpretations of the findings. Data from the field was analyzed using Statistical Package for Social Sciences and summarized using tables, charts, frequencies and percentages. From the study, a population of 61 respondents out of the sample population of 100 respondents filled and returned the questionnaires correctly. This contributes to 61% response rate. According to Mugenda and Mugenda (1999), a response rate of above 50% is considered adequate for generalization of findings to the whole population.

4.2 Biographic Data

The study sought to establish demographic information of the respondents so as to determine their fitness in providing information needed for the study. To this end, the study inquired on the respondents' educational levels, job group category, years of operation and number of employees.

Table 4.1: Level of education

	Frequency	Percent
Primary	1	1.6
Secondary	10	16.4
College	44	72.1
University	6	9.8
Total	61	100.0

Findings on the level of education of the respondents were as presented in the table 4.1 above. As shown in the findings 72.1% of the respondents had their highest level of education being college education, 16.4% of the respondents had gone up to secondary school level, 9.8% of the respondents had university degree while 1.6 % of the respondents had reached primary school. These findings show that the respondents were learned as the majority had college certificates. They therefore were in a position to provide data required for this study.

The study further sought to determine the number of years that the respondents business had been in Operation. The findings are presented in the table below.

Table 4.2: Years the business has been in Operation

	Frequency	Percent
0 - 5yrs	5	8.2
6-10yrs	24	39.3
11 - 15yrs	25	41.0
16 - 20yrs	2	3.3
Above 20yrs	5	8.2
Total	61	100.0

From the findings, 41.0% of the respondents indicated that their businesses had been in operation for between 11-15years, 39.3% of the respondents indicated that their businesses had been in operation for between 6-10 years, 8.2% of the respondents indicated that their businesses had been in operation for between 0-5 years and above 20 years, 3.3% of the respondents indicated that their businesses had been in operation for between 16-20 years. These findings show that a majority of the respondents had been in business for between 11-15 years hence were more experienced in development of competitive strategies to overcome stiff competition from the market. This therefore means that they were more qualified to provide the data required for this study.

Findings on the number of employees in the cosmetics businesses as provided by the respondents are as presented in the table 4.3.

Table 4.3: Number of employees

	Frequency	Percent
1 – 10	29	47.5
11 – 20	25	41.0
21 – 30	6	9.8
31 – 40	1	1.6
Total	61	100.0

As shown in table 4.3 above, 47.5% of the respondents had between 1-10 employees, 41.0 % of the respondents had between 11-20 employees, 9.8 % of the respondents had between 21-30 employees, 1.6 % of the respondents had between 31-40 employees. These findings indicate that majority of the businesses had between 1-10 employees.

Data on the categories of the respondent’s business was as presented in the table 4.4.

Table 4.4: Categories of the businesses

	Frequency	Percent
Retail	28	45.9
Wholesale	7	11.5
Both Retail & Wholesale	26	42.6
Total	61	100.0

From the data findings, 45.9 % of the respondents indicated that their businesses were in the retail category, 11.5 % of the respondents indicated that their businesses were in the wholesale category while 42.6 % of the respondents indicated that their businesses were in both the retail and wholesale category. These findings show that majority of the respondents were in the retail business followed by those in both retail and wholesale businesses. Therefore the businesses were relevant in providing information as they had in one way or another developed competitive strategies to keep them a head of the competition and attract customers.

4.3 Competitive Strategies Adopted

The study sought to establish whether the respondents business had a written vision statement. From the data findings, 78.7% the respondents indicated that their business had a written vision statement and 21.3% the respondents indicated that their business did not have a written vision statement. Through a written vision statement, employees are reminded and motivated to work towards its attainment.

Findings on whether respondents' business had a written mission statement indicated that 68.9% of the respondents businesses had a written mission statement and 31.1% of the respondents businesses did not have a written mission statement. These findings show that majority of the cosmetic firms within the Nairobi Central business District had a mission statement. Through a mission statement, organizations are guided to the attainment of their vision.

The study sought to describe the nature of competition among cosmetic businesses within the industry. The findings were as presented in the Table 4.5.

Table 4.5: Competition among cosmetic businesses within the industry

	Frequency	Percent
Weak competition	3	4.9
Strong competition	23	37.7
Very strong competition	33	54.1
Hyper competition	2	3.3
Total	61	100.0

As shown in the findings 54.1% of the respondents described the competition as very strong, 37.7% of the respondents described the competition as strong competition, 4.9 % of the respondents described the competition as weak competition and 3.3% of the respondents described the competition as hyper competition. From the findings above, the respondents suggest that competition was stiff indicating that in order for these cosmetic firms to survive, they needed to develop strategies that would give them competitive advantage over their competitors.

The study sought to establish strategies adopted to cope with competition. To achieve this, several strategies were listed on which the respondents were required to indicate the extent to which their business had adopted them. The level of agreement ranged from 5 =Very great, 4= great, 3= Moderate, 2= little, and 1= Not at all. From the responses, the study computed mean and standard deviation. The findings were as presented in the table 4.6.

Table 4.6: Strategies adopted to cope with competition

	Mean	Std. Deviation
Product differentiation (Having different product prices for different customers)	3.7541	.97734
Cost leadership (Quoting reasonable prices to customers)	3.8197	.94000
Training staff to ensure specialized skills	3.7377	1.16764
Investing in quality customer service	4.0820	1.00491
Recruiting policies (Recruitment of competent and capable staff)	3.5574	1.13320
Outsourcing (Contracting another company to provide some services that are not your core business)	2.6230	1.00273
Branding packaging material	3.1475	1.48140
Longer opening hours	3.8361	1.18575
Location of business	4.0164	.78511
Provision of high quality services	4.1148	.96023
Gather information on your competitors for example through mystery shopping	3.1475	1.27588
Attend trade shows and seminars	2.8033	1.15209
Distribution of free gifts, discounted vouchers and coupons	2.7541	1.38631
Use of Information Communication Technology such as websites, internet, telephone among others, to advertise and communicate with customers	3.8197	1.21803
Conduct research on customer needs	3.3607	1.03332
Offering customers additional services like free training and transportation	2.4918	1.14925
Selling on credit	1.9672	1.15423
Use of sales promoters	3.0164	1.19012

As shown in Table 4.6 above, in regards to Product differentiation (Having different product prices for different customers), the respondents agreed that their firms engaged product differentiation as indicated by mean score of 3.7541. Through product differentiation, the respondents were able to attract and retain a certain clientele to their businesses. On cost leadership (Quoting reasonable prices to customers), the respondents agreed that they used cost to create competitiveness in their businesses as indicated by mean score of 3.8197. By offering customer value for their money, the firms were able to create loyalty among their customers.

The respondents agreed that their firms used staff training to ensure specialized skills were available in their firms as indicated by mean score of 3.7377. Availability of specialized skills ensured that the company offered great after sale service and appropriate advisory on usage of beauty products.

The respondents greatly agreed that investing in quality customer service was one of the competitive strategies used by their firms as indicated by mean score of 4.0820. Quality service delivery ensured that customers were treated well while in their premises hence increased chances of repeat business with them.

The respondents further agreed that recruiting policies (Recruitment of competent and capable staff) was one of the strategies that their firms used as indicated by mean score of 3.5574. Better recruitment policies ensure that good quality staff are recruited and trained to grow the business in a highly competitive environment. The respondents also disagreed that outsourcing (Contracting another company to provide some services that are not your core business) was one of the key strategies used as indicated by mean score of 2.6230. The firms surveyed did not engage in outsourcing to a great extent because their premises were not so big.

The respondents agreed that branding packaging material were among the competitive strategies adopted by cosmetic firms within Nairobi Central Business District. The respondents indicated that they went to the extent of designing their own packaging which advertised their brands and offers as indicated by mean score of 3.1475. Some cosmetic shops applied longer opening hours as indicated by mean score of 3.8361 to beat their competitors so that they could offer their products to those willing to shop late.

The cosmetic shops also applied location of business as one of their key competitive strategies as indicated by mean score of 4.0164. By setting up their business premises in strategic location where customers could easily access them, the cosmetic firms improved on their competitiveness. Some cosmetic shops located themselves on busy streets and areas with high population or high purchasing power to attract their customers.

The cosmetic firms also provided high quality services to attract and retain their customers as indicated by mean score of 4.1148. High quality services ensured that customers were fully informed on the different products available and which ones were suitable for them. The respondents moderately agreed on gathering information on their competitors for example through mystery shopping as a competitive strategy as indicated by mean score of 3.1475. The Cosmetic business owners and their staff also attended trade shows and seminars to boost their competitiveness as indicated by mean score of 2.8033. They also offered free gifts, discounted vouchers and coupons to attract and retain customers as indicated by mean score of 2.7541.

On the use of Information Communication Technology such as websites, internet, telephone among others, to advertise and communicate with customers the respondents agreed that they applied all these in their operations to boost their competitiveness as indicated by mean score of 3.8197. The respondents also indicated that they conducted research on customer needs so as to establish how well to satisfy them as indicated by mean score of 3.3607. However, this was not highly used because the level of agreement with this is moderately.

The respondents however indicated that they offered customers additional services like free training and transportation services as a competitive strategy to a little extent as indicated by mean score of 2.4918. The further indicated that selling on credit was not greatly used as indicated by a lower mean score of 1.9672. However, the use of sales promoters was moderate as indicated by mean score of 3.0164.

The study sought to establish the extent to which strategies adopted to cope with competition have affected the competitiveness of their business. The findings were presented in table 4.7.

Table 4.7: Effects of strategies on the competitiveness of the business

	Frequency	Percent
Little extent	1	1.6
Moderate extent	16	26.2
Great extent	28	45.9
Very great extent	16	26.2
Total	61	100.0

As shown in the findings 45.9 % of the respondents indicated that establishing strategies adopted to cope with competition have affected the competitiveness of their business to a great extent, 26.2% of the respondents indicated that they affected the competitiveness of their business to a very great extent and also to a moderate extent while 1.6% of the respondents indicated that they affected the competitiveness of their business to a little extent. From these findings, it can be inferred that the competitive strategies adopted by the cosmetic firms in Nairobi Central Business District affected the competitiveness of the firms to a great extent. They determined the turnover levels of the firms involved.

4.4 Challenges Faced in Adopting Different Competitive Strategies

The respondents were asked to state the extent to which their business faced challenges when adopting competitive strategies. The findings are as stated in the table 4.8.

Table 4. 8: Challenges faced in adopting different competitive strategies

	Mean	Std. Deviation
Government regulations	4.1148	.95041
Inadequacy of capital for expansion	3.8197	1.14758
Inadequacy of qualified staff	2.9508	1.25733
Inadequacy of space for expansion	3.0328	1.15423
Cheap imports	3.4918	1.53431
Bad debts	2.9672	1.64284
Competition from hawkers who sell goods at a cheaper price	3.9180	1.32029
Inadequacy of capacity to train staff	2.8852	1.31781

The respondents indicated that government regulations affected the level of competitiveness of the cosmetic firms to a great extent as indicated by mean score of 4.1148. Through Government regulations, firms were required to follow certain laid down rules and procedures in order to continue their operations. This limited the level of product diversification and innovativeness in these firms.

The respondents further indicated that the challenge of inadequacy of capital for expansion affected the level of competitiveness of their firms to a great extent as indicated by mean score of 3.8197. Capital availability for expansion determined how many outlets a business could have within town. The respondents further indicated that inadequacy of qualified staff affected their businesses competitiveness to a moderate extent as indicated by mean score of 2.9508. Concerning inadequacy of space for expansion respondents agreed to a moderate extent as indicated by mean score of 3.0328. About cheap imports respondents agreed to a moderate extent as indicated by mean score of 3.4918. On bad debts the respondents agreed to a moderate extent as indicated by mean score of 2.9672. On the competition from hawkers who sell goods at cheaper price respondents agreed to a great extent as indicated by mean score of 3.9180. On inadequacy of capacity to train staff respondents agreed to a moderate extent as indicated by mean score of 2.8852.

The study sought to establish the extent to which the challenges encountered affected their company's competitiveness in the cosmetics industry. The findings were presented in table 4.9.

Table 4. 9: Effects of challenges on company's competitiveness

	Frequency	Percent
Little extent	1	1.6
Moderate extent	21	34.4
Great extent	25	41.0
Very great extent	14	23.0
Total	61	100.0

As shown in the findings 41% of the respondents indicated that strategies adopted to cope with competition have affected the competitiveness of their business to a great extent, 34.4% of the respondents indicated that they affected the competitiveness of their business to a moderate extent , 23% of the respondents indicated that they affected the competitiveness of their business to a very great extent while 1.6% of the respondents indicated that they affected the competitiveness of their business to a little extent. The challenges affected the competitiveness of the cosmetic companies to a great extent.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of key data findings, the conclusion drawn from the findings and recommendation made to the study. The objectives of the study included determining the competitive strategies adopted by cosmetic businesses in Nairobi Central Business District and establishing the challenges that cosmetic businesses in Nairobi Central Business District face in implementing the competitive strategies adopted.

5.2 Summary of Findings

From the data findings, 54.1% of the respondents described the competition as very strong and 3.3% of the respondents described the competition as hyper competition. The study sought to establish strategies adopted to cope with competition. The respondents agreed to adopting product differentiation (Having different product prices for different customers), cost leadership (Quoting reasonable prices to customers), and training staff to ensure specialized skills. The study sought to establish the extent to which strategies adopted to cope with competition have affected the competitiveness of their business, 45.9 % of the respondents who comprise the majority indicated that strategies adopted to cope with competition have affected the competitiveness of their business to a great extent.

The respondents were asked to state the extent to which their business faced challenges when adopting competitive strategies and the key findings were: On government regulations the respondents agreed to a great extent. On inadequacy of capital for expansion respondents agreed to a great extent. On inadequacy of qualified staff respondents agreed to a moderate extent. Concerning inadequacy of space for expansion respondents agreed to a moderate extent. About cheap imports respondents agreed to a moderate extent. The study sought to establish the extent to which the challenges encountered affected competitiveness in the cosmetics businesses, 41% of the respondents indicated that strategies adopted to cope with competition have affected the competitiveness of their business to a great extent.

5.3 Conclusion

From the findings of the study presented in chapter four and summary of findings above, the study concludes that the cosmetic businesses experienced very strong competition and hence the need to develop competitive strategies. Some of the strategies adopted by these firms included product differentiation, cost leadership, offering quality customer services, opening for longer business hours, choosing a strategic business location and applying information technology in the operations. These strategies affected the competitiveness of the cosmetic firms to a great extent.

5.4 Limitations of the Study

A limitation for the purpose of this study was treated as any factor that was present and would have hindered the attainment of the study objective. One of the limitations was getting the target respondents to provide information needed for the study due to the fact that the cosmetic business owners were not present most of the time. The researcher however dealt with this challenge by adopting the drop and pick method to increase the response rate.

Another limitation included limited funds available for the study. The study would have extended to cosmetic business outside the Nairobi central business district. However, the researcher only concentrated on cosmetic business located in the Nairobi central business district only due to limited funds.

5.5 Recommendations

5.5.1 Recommendations with policy implications

The study established that the cosmetic firms faced high competition from hawkers who sold some products that were similar to theirs at a cheaper cost outside their premises. Based on these findings, this study recommends that the County Government finds mechanisms of controlling the business of hawkers so as to enable the cosmetic businesses sell their products at competitive prices.

Secondly, the study also established that the firms in the cosmetics business faced fierce competition. The study established that the firms had adopted several strategies including offering high quality services, product differentiation and cost leadership and further recommended that these firms invest in research and development to come up with new and innovative way to handle competition and to serve their customers.

Finally the study also established that cosmetic firms within the Central Business District in Nairobi faced several challenges ranging from government regulations, inadequate capital for expansion and high competition. This study recommends that the cosmetic firms form an association to allow for collective bargaining of their rights and negotiations with the relevant authorities to ensure smooth operations of their businesses.

5.5.2 Suggestions for Further Research

This study focused on the competitive strategies adopted by cosmetic businesses within Nairobi Central Business District. It did not consider cosmetic businesses operating outside Central business District. This therefore study proposes that future studies be conducted on all cosmetics businesses in Kenya so as to allow for generalization of the findings.

The study further recommends that another study on the competitive strategies adopted by firms in the manufacturing industry be carried out to determine how manufacturing firms are responding to the challenges posted by globalization.

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Appendix 1: Letter of Introduction

Appendix 2: List of Cosmetic Businesses within Nairobi Central Business District

NAME

1. BEAUTY WHOLESALERS LTD
2. VICTOR COSMETICS
3. REONES COSMETICS
4. JUSTANS
5. VAPOUR COSMETICS PERIDA
6. VAPOUR EUNIQUE
7. AFRIGIRL INVESTMENT
8. BESTLY COSMETICS
9. BEST AFRICAN COSMETICS
10. COSMIX COSMETICS
11. SUPER COSMETICS LTD
12. BEAUTY JOINT
13. BEST MAN COSMETICS
14. GAWA COSMETICS LIMITED
15. SARAH'S BEAUTY WAREHOUSE
16. BEAUTY OPTIONS LIMITED
17. RECOVERY CHEMIST& BEAUTY CEN
18. KENCY BEAUTY SHOP
19. BEAUTY LINK COSMETICS
20. BEAUTY IRIS COSMETICS
21. UREMBO CENTRE LTD
22. MAJUCALO HOLDINGS
23. SUNRAYS BEAUTY SHOP
24. SNOWFIRE BEAUTY CENTRE
25. GALLOP SERVICES LTD
26. IKABA COSMESTICS
27. MAXIM BEAUTY COSMETICS
28. WINDEN COSMETICS
29. BANNETS BEAUTY
30. MAXIM PERIDA CENTRE
31. REONES
32. WANDURA
33. EBENEEZER
34. NYAKINYUA
35. PLANETS BEAUTY
36. MIREN COSMETICS
37. BEAUTY WISE
38. SHARON BEAUTY

39. RHODA BEAUTY
40. JACKS KAMUKUNJI
41. T& N COSMETICS
42. SAYONA STORES
43. SHIKO COSMETICS
44. QUEENS
45. FLOW
46. BEST BEAUTY-TOWN
47. BEAUTY PARADISE
48. BESTPOINT STORE
49. KAMUKUJI G 43
50. KARANU
51. FRONTPAGE
52. SLEEK COSMETICS
53. CLASSIC COSMETICS
54. NEEMA BEAUTY SHOP
55. SALAMA COSMETICS
56. VISION COSMETICS
57. IMANI COSMETICS
58. TIMANDI'S
59. LAVISCOR
60. SUSAN COSMETICS
61. PARIS BEAUTY SHOP
62. MONA BEAUTY SHOP
63. LIZ COSMETICS
64. COURTYARD COSMETICS
65. RISING SUN
66. GLORIOUS
67. BESTPOINT STORE
68. TUJIPONDOE
69. VASARCE
70. VIGULU
71. JOSPHY COSMETICS
72. ACROSS SEASONS
73. JOJWAN
74. PAVINIEL
75. COLNICE
76. WANMAR
77. KIMCHRIS
78. FLORA
79. LYDIAS
80. STEFF

81. BEAUTY PARADISE
82. ESSY COSMETICS
83. NEW HOPE
84. RICKY COSMETICS
85. SALAMA COSMETICS
86. ELIAN BEAUTY SHOP
87. SHELLY BEAUTY SHOP
88. RACHAEL BEAUTY SHOP
89. RESTORATION
90. MANCHESTER
91. TODAY'S LOOK
92. SAMAR
93. ONYX
94. INNERPOWER
95. WANGASON
96. COURTYARD COSMETICS
97. RISING SUN
98. GLORIOUS
99. BESTPOINT STORE

100, EURO COSMETICS

Appendix 3: Questionnaire

SECTION A: GENERAL BACKGROUND INFORMATION

1. What is the name of the business? ____
2. What is your job title? ____
3. Your level of education
   a) Primary ( )
   b) Secondary ( )
   c) College ( )
   d) University ( )
   e) Other ( )
4. How many years has your business been in Operation?
   - 0 - 5yrs ( ) 6-10yrs ( ) 11 - 15yrs ( ) 16 - 20yrs ( ) Above 20yrs ( )
5. How many employees does the business have?
   - 1 – 10 ( ) 11 – 20 ( ) 21 – 30 ( ) 31 – 40 ( ) 41 – 50 ( ) Above 50 ( )
6. In which of the following categories does the business fall?
   a) Retail ( )
   b) Wholesale ( )
   c) Both Retail & Wholesale ( )

SECTION B: COMPETITIVE STRATEGIES ADOPTED

7. Does your business have a written;
   a) Vision statement Yes( ) No( )
   b) Mission statement Yes( ) No( )
8. How would you describe competition among cosmetic businesses within the industry?
   a) Weak competition ( )
   b) Strong competition ( )
   c) Very strong competition ( )

d) Hyper competition ( )

9. The following are some of the strategies many organizations have adopted to cope with competition. State the extent to which your business adopts these strategies. **Tick where appropriate.**

5) Very great 4) Great 3) Moderate 2) Little 1) Not at all

	5	4	3	2	1
Product differentiation (Having different product prices for different customers)					
Cost leadership (Quoting reasonable prices to customers)					
Training staff to ensure specialized skills					
Investing in quality customer service					
Recruiting policies (Recruitment of competent and capable staff)					
Outsourcing (Contracting another company to provide some services that are not your core business)					
Branding packaging material					
Longer opening hours					
Location of business					
Provision of high quality services					
Gather information on your competitors for example through mystery shopping					
Attend trade shows and seminars					
Distribution of free gifts, discounted vouchers and coupons					
Use of Information Communication Technology such as websites, internet, telephone among others, to advertise and communicate with customers					
Conduct research on customer needs					
Offering customers additional services like free training and transportation					
Selling on credit					
Use of sales promoters					

10. Other than the strategies mentioned above, what other strategies do you adopt to cope with competition in the industry? --

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11. In general, to what extent have these strategies affected the competitiveness of your business?

    Very great extent [ ]

    Great extent [ ]

    Moderate extent [ ]

    Little extent [ ]

    No extent [ ]

SECTION C: CHALLENGES FACED IN ADOPTING DIFFERENT COMPETITIVE STRATEGIES

12. The following are some of the challenges many organizations face when adopting competitive strategies. State the extent to which your business faces these challenges. **Tick where appropriate**.

5) Very great 4) Great 3) Moderate 2) Little 1) Not at all

	5	4	3	2	1
Government regulations					
Inadequacy of capital for expansion					
Inadequacy of qualified staff					
Inadequacy of space for expansion					
Cheap imports					
Bad debts					
Competition from hawkers who sell goods at a cheaper price					
Inadequacy of capacity to train staff					

13. Other than the challenges mentioned above, what other challenges do you face when adopting competitive strategies? ---

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14. In general, to what extent have these challenges affected your company's competitiveness in the cosmetics industry?

Very great extent	[ ]
Great extent	[ ]
Moderate extent	[ ]
Little extent	[ ]
No extent	[ ]

THANK YOU FOR YOUR PARTICIPATION