FACTORS INFLUENCING COMPETITIVE ADVANTAGE BY EAST AFRICAN BREWERIES LTD WITHIN BEER MANUFACTURING SECTOR IN KENYA

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER, 2013

DECLARATION

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

Signed:______________________________________ Date______________________

ZIPPORAH MUKONYO MUSIA

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

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DEDICATION

This research study is dedicated to my children Wangui and Mwikali Kiragu for the tireless sacrifices of their precious family time throughout the entire MBA program and especially during this research project. May they go beyond this!

ACKNOWLEDGEMENTS

The completion of this project was not simple. It was not created by the author alone, but relied on the co-operative assistance of many unseen hands. First and foremost I owe special thanks to God Almighty for seeing me through. I sincerely acknowledge my supervisor Mr. Eliud Mududa of School of Business, University of Nairobi for his enabling support and guidance, his never ending patience, good eye and sharp mind.

I will forever be grateful to my husband Daniel Ndungu for inspiring me to start this program and giving me all the support I needed throughout the course. Special gratitude to my children for bearing with me when I was pre-occupied with this study.

I would also like to acknowledge the encouragement from all my colleagues and my MBA classmates, friends and relatives whose remarkable devotion and dedication throughout the project work was incredible. May God bless the work of their hands!

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ABSTRACT

A company has a competitive advantage whenever it has an edge over its rivals in securing customer and defending against competitive forces. Competitive advantage plays a critical role in organizations in pursuit of policies growth that create high-quality goods to sell at high prices in the market. East African Breweries Ltd (EABL) continued to dominate sales in 2007 with the majority market share. Despite East Africa Breweries Limited implementing competitive strategies, empirical study on the role of competitive advantage in company has not been established. This study seeks to determine role of competitive advantage in East African Breweries Limited. The objective of the study was to determine the factors influencing competitive advantage by East African Breweries Limited within the beer manufacturing sector in Kenya**.** This was a case study since the unit of analysis is one organization. Primary data was collected using self-administered interview guide with the manager. This was a case study aimed at getting detailed information regarding the achieving competitive advantage through adoption of innovation strategies.Content analysis was employed. This is a systematic detailed qualitative description of the objectives of the study. It involved observation and detailed description of objects, items or things that comprise the study.The study conclude that the company ensured delivering of the highest quality brands by manufacturing variety of quality beer products including Tusker Lager, Tusker Malt Lager, Pilsner and White Cap Lager which are superior to products of its competitors. This was due to company employing consumer driven business and where the EABL takes time to study the market and understand consumer needs and wants as well as how best to satisfy them hence constantly invest in innovating and renovating company's brands to stay at par with dynamic consumer trends. The study concluded that company adopted product differentiation strategies which enable its to offering variety of beer products to different market segment offering high quality beer products, superior customer service and achieving lower costs alcohol than its rivals achieving competitive advantage in the market. The study concluded that adopted of various competitive strategies cost leadership, product and focus influenced company achieving competitive advantage had enabled the company to increase its market share, product quality products, access to natural resources such as barley, access to highly trained and skilled personnel human resources and new technologies, access to cheap labour and lower cost of production. The study further concluded that attained market leadership position through production of quality and superior alcoholic and non-alcoholic products effective distribution and marketing enable the companies to be market leaders influenced achievement of competitive advantage.

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ABBREVIATIONS

COMESA- Commonwealth East and Southern Africa

EABL-East African Breweries Limited

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

A company has a competitive advantage whenever it has an edge over its rivals in securing customers and defending itself against competitive forces (Powell, 2001). Competitive advantage is born out of core competencies that yield the long term benefit to the company. Porter (1985) noted that a core competence as an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity. According to Cross, (1999), competitive advantage can be developed from a particular resources and capabilities that the firm possesses that are not available to competitors. The transformation of available skills and resources into a strategic position can only take place under conditions that provide customer benefit, and normally requires the transformation of multiple competitive methods. The ability to implant cost leadership, differentiation, or focus strategy is dependent on a firm's ability to develop a specific set of competitive methods. This becomes the basis for the firm to be able to achieve above average in its industry (Stacey, 2003).

Warf and Stutz (2007) argue that competitive methods consist of skills and resources that are available for use by firms in a competitive industry. They define superior skills in terms of staff capability, systems, or marketing savvy not possessed by a competitor. Breweries customer's customers are sensitive to services and prices and seek to manufacture quality beers and maintain performance advantage over competitors that pursue another generic strategy type or those that are stuck-in-the-middle (Barney, 2001). One central measure of organizational effectiveness is the creation and continued dominance in the market. Many broad initiatives such as efficiency, core competency advancement, actualization of customer-centric products and services, and limitation of the fixed costs of manufacturing beer is achieved through competitive advantage within the market place (Smith, 2006).

The resources held by a beer company and the business strategy will have a profound impact on generating competitive advantage. Powell (2001) views business strategy as the tool that manipulates the resources and create competitive advantage, hence, viable business strategy may not be adequate unless it possess control over unique resources that has the ability to create such a unique advantage. Competitive advantage is a key determinant of superior performance and it will ensure survival and prominent placing in the market (Grant, 1991). It gives the beer company the ability to stay ahead of present or potential competition and influence achieving of market leadership in beer manufacturing sectors.

1.1.1 Concept of competitive advantage

The term competitive advantage has traditionally been described in terms of the attributes and resources of an organization that allow it to outperform others in the same industry or product market (Barney, 2009). The new paradigm of international competitiveness is a dynamic one, based on innovation. Competitiveness at the industry level arises from superior productivity; either in terms of lower costs than rivals or the ability to offer products with superior value (value adding) that justifies a premium price (Foster and Kaplan, 2001). Detailed case studies of hundreds of industries, based in dozens of countries, reveal that internationally competitive companies are not those with the cheapest inputs or the largest scale, but those with the capacity to improve and innovate continually. Competitive advantage, then, rests not on static efficiency or on optimizing within fixed constraints, but on the capacity for innovation and improvement that shift the constraints (Pearce and Robinson, 2003)

According to Porter (1996), competitive advantage is an important concept of strategic management. It defines the uniqueness of an organization verses its competitors. Competitive strategy of the organization is the road map towards gaining competitive advantage. The strategy by which the competitive advantage is gained is known as business level strategy of the organization.

Sources of competitive advantage include high quality products, superior customer service and achieving lower costs than its rivals (Barney, 2009). The search for competitive advantage has been the dominant theme in the study of strategy for many years (Porter, 1996). Competitive advantage is a journey and not a destination - it is like tomorrow which is inescapable but never arrives. Competitive advantage only becomes meaningful when this journey is experienced (Stutz and Warf, 2009). For most organizations, however, the problem is how to identify where the journey lies. In fast-moving competitive environments, the nature of the journey itself keeps changing in an unpredictable fashion.

1.1.2 Beer manufacturing sector in Kenya

Beer industry in Kenya dates back to 1922 when two brothers from England, George and Charles Hurst, started brewing beer in Kenya. The two formally incorporated their business as a private company under the name of Kenya Breweries Ltd. In 1929 the first malted barley beer was brewed and the first batch delivered to New Stanley Hotel where it was opened with mixed reaction. In 1930, the first lager beer was brewed and released into the market. By 1938 the company was recognized for its beer after it won the first brewing award in an international competition. Bottled beer consumption was exclusive for whites in pre-colonial era until 1947 when Africans were allowed to drink formal sector beer.

Kenya's premium beer sector is forecast to expand by 2% in value over the next five years, but overall market volumes will rise by 4%, said Euro monitor in a report published in February. The premium brands target the high-income earners, who account for only 10% of the population.

Kenya has a flourishing beer industry producing high quality beer recognized internationally. This has been possible due to factors such as good climate for agro-production, availability of barley, affordable labour, local market (beer per capital consumption at 14 litres), access to the regional markets like COMESA and the East African Community. Kenya’s strategic location in the East African coast provides accessibility to the East and Central African markets via International seaport/airport.

The Kenya government has additionally set up investor friendly centers such as the Export Processing Zones Authority and the Investment Promotion Centre to facilitate investors setting up projects in Kenya. Furthermore, investor friendly policies in place include the liberalization of marketing and processing of cereals and other agro-produce, removal of duties on importation of farm inputs and free repatriation of capital and profits

1.1.3 East African Breweries Limited (EABL)

Kenya Breweries was founded in 1922 by two white settlers, George and Charles Hurst. By 1990, most of the shareholders were Kenyan and the company was very successful. Tanzania Breweries had been started by Kenya Breweries in the 1930s. After being nationalized in 1967, Tanzania Breweries was poorly managed. However, in 1993 the Tanzanian government entered into a joint venture with South African Breweries Limited to run Tanzania Breweries. South African Breweries is one of the largest and most efficient brewing companies in the world. They turned Tanzania Breweries around with extraordinary speed, almost tripling production in the space of three years.

In 2002 East African Breweries Limited (EABL) and SABMiller Plc. affected a share swap of their interests in their subsidiaries: Kenya Breweries Limited and Tanzania Breweries Limited. EABL acquired 20% of the equity of Tanzania Breweries. SABMiller Plc. acquired a 20% equity stake in Kenya Breweries. The largest shareholder is Diageo Plc. EABL's primary listing is on the Nairobi Stock Exchange, and is cross-listed on the Uganda Securities Exchange and Dar-es-Salaam Stock Exchanges (EABL, 2012).

Tusker is the main brand of East African Breweries with over 30% of the Kenyan beer market selling more than 700,000 hectoliters per year. It is a 4.2% by pale lager. The brand was first marketed in 1923, shortly after the founder of Kenya Breweries Ltd, George Hurst, was killed by an elephant during a hunting accident. It was in this year that the elephant logo, that is synonymous with Tusker Lager, was incorporated. The slogan Bia Yangu, Nchi Yangu, means My Beer, My Country in Swahili.

In early 2008, the UK supermarket chain Tesco began selling Tusker, followed soon after by Sainsbury's. The company also makes Uganda Waragi, a 40% by-brand of Waragi and the leading branded distilled beverage in Uganda. It is made from millet, and triple distilled. It is known in Uganda as The Spirit of Uganda, or simply UG. The main markets include other African countries such as Rwanda, the Democratic Republic of Congo and Sudan. In 1965, The Enguli Act decreed that distillation would only be legal under license, and distillers should sell to the government run Uganda Distilleries Ltd – which produced a branded bottled product, marketed under the name Uganda Waragi. Top executives in EABL have become more innovative as the East African beer industry becomes even more competitive. Already, executives at East African Breweries Ltd (EABL), which currently controls about 85 per cent of Kenya's formal alcohol market are offering new brand drinks to gain competitive edge over rival competitors in the markets such Keroche Industries.

1.2 Research problem

Competitive advantage plays a critical role in organizations in pursuit of policies that create high-quality goods to sell at high prices in the market. Porter (2005) emphasizes productivity as the focus of national strategies. Competitive advantage rests on the notion that manufacturing companies seek strategies to improve on offering quality product and services better than the competition in the market. Competitive advantage influences maximizing scale economies in goods and services that garner premium prices in the market (Stutz and Warf 2009).

Competitive advantage among mature competitors increasingly requires building strategy on a foundation of multiple competencies. As the largest beer maker in the world, Anheuser-Busch can achieve a single competency commonly referred to as "economies of scale," whereby its larger size creates opportunities for greater efficiencies. But its interaction of well-planned, multiple competencies leads to deeply embedded synergies, such as greater product availability and increased brewery yields, that reinforces the original competitive advantages. East African Breweries Ltd continued to dominate sales in 2007 with the majority market share.

Its dominance is basically driven by continued effective marketing campaigns like promotions, advertisements and sponsorship of public events and offering quality alcoholic and non-alcoholic drinks. The pervasive influence of new and more advanced technologies as well as the realities of global infrastructure makes it necessary for EABL to play a proactive role in leading and transforming the beer industry in Kenya. Currently, EABL is diversifying its products. The company started brewing 100% non-malted beer (Citizen Lager) in 1997. The company has also diversified into non-alcoholic beverages such as alvaro in the backdrop of beer demand. The East African Breweries Ltd has the most popular brands Tusker, Pilsner, Tusker Malt and Guinness. This is due to their lower price compared with the imported alternatives, and their overall availability across the country (EABL, 2012). The company has loyalty among consumers to particular brands and has adopted effective marketing strategies .This has enabled the company to achieve superior performance and guaranteed survival and prominent placing in the market. Despite the gain of competitive advantage in East African Breweries Limited, the factors influencing the same have not been determined.

Locally, there are studies which have focused on achieving sustainable competitive advantage in banks. For instance Gathuiya (2011) carried out a study on achieving sustainable competitive advantage through innovation strategies in commercial Banks. Kibet and Chepkuto (2010) found that creation and sustenance of competitive advantage was achieved through product differentiation in companies. They found out that companies strive to survive and succeed in competition by pursuing strategies that enable them to perform better than their competitors. Despite East Africa Breweries Limited implementing competitive strategies, empirical study on the role of competitive advantage in the company has not been established. The study sought to determine the application of competitive advantage in East African Breweries Limited. What are the factors influencing competitive advantage in East African Breweries Limited?

1.3 Research objective

The objective of the study was to determine the factors influencing competitive advantage by East African Breweries Limited within the beer manufacturing sector in Kenya.

1.4 Value of the study

The government is the custodian of all its citizens regardless whether it has the ability to address their plight. Information gathered through this study will help the government to formulate policies beneficial and the best practices in application of competitive advantage in the brewing sectors in Kenya.

The study provides a platform for further research in the area of competitive advantage in the in brewery industry. The findings of the study may be of use to trainers in strategic management in that it may assist them in knowing the areas which should be given concentration when training managers on competitive advantage and related topics in their organizations.

The study may also help researchers to gain problem solving skills as well as the skills of academic report writing. In addition, the study may assist the researcher acquire the necessary experience and the best practices in application of competitive advantage in beer manufacturing companies.

Researchers may also use findings for further research as a secondary source of information.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature review on study. The specific areas covered in this chapter include; competitive advantage theories, concept of competitive advantage and the factors influencing competitive advantage by EABL.

2.2Competitive advantage theories

Competitive advantage theory suggests that states and businesses should pursue policies that create high-quality goods to sell at high prices in the market. Porter emphasizes productivity growth as the focus of national strategies. Competitive advantage rests on the notion that cheap labor is ubiquitous and natural resources are not necessary for a good economy. The other theory, comparative advantage, can lead countries to specialize in exporting primary goods and raw materials that trap countries in low-wage economies due to terms of trade. Competitive advantage attempts to correct this issue by stressing maximizing economies of scale in goods and services that garner premium prices (Stutz and Warf 2009).

According to the resource-based view, in order to develop a competitive advantage the firm must have resources and capabilities that are superior to those of its competitors (Clulow, Gerstman and Barry, 2003). Without this superiority, the competitors simply could replicate what the firm was doing and any advantage would quickly disappear. Resources are the firm-specific assets useful for creating a cost or differentiation advantage and that few competitors can acquire easily (Passemard, 2000).

In Schumpeterian theory, the companies seize competitive advantage to creates or adopt innovations that make the competitors' position obsolete, which is called creative destruction. This type of competition is considered much more effective and beneficial than price competition or creating monopoly power. However, investing in radical innovations is inherently risky and requires larger companies to invest and develop revolutionary innovations through competitive advantage (Passemard, 2000).

2.3 Competitive advantage

The term competitive advantage is the ability gained through attributes and resources to perform at a higher level than others in the same industry or market (Lynch 1999). The study of such advantage has attracted profound research interest due to contemporary issues regarding superior performance levels of firms in the present competitive market conditions. A firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential player (Clulow *et al*, 2003).

Competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors. These attributes can include access to natural resources, inexpensive power, or access to highly trained and skilled personnel human resources. New technologies such as robotics and information technology can provide competitive advantage, whether as a part of the product itself, as an advantage to the making of the product, or as a competitive aid in the business process.

2.4 Factors influencing competitive advantage

When a firm sustains profits that exceed the average for its industry, the firm is said to possess a competitive advantage over its rivals (Smith, 2006). The goal of many business strategies is to achieve a sustainable competitive advantage. Porter, (1985) identified two basic types of competitive advantage: cost advantage, differentiation advantage.

Competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). Thus, competitive advantage enables the firm to create superior value for its customers and superior profits for itself (Anderson, 1996).

2.4.1 Product/Service advantage

In a competitive market place, consumers perceive the products/services or organization’s performance on specific attributes relative to that of the competitors (Kotler, 1994). Thus, manufacturing companies have to either reinforce or modify customers’ perception or image. Competitive advantage in products and services in beer manufacturing companies plays a pivotal role in marketing strategy, since it links market analysis, segment analysis and competitive analysis to internal corporate analysis (Stacey, 2003).

In more recent times a new competitive factor, product or service advantage, is reported to play a major role in the achievement of organization superior performance (Ferrero, 1992). Service makes it possible to better qualify the supply of products, innovative manufacturers consider it as an intrinsic part of the product offered to the end market. The manufacturers combine products and services due to customers' change in behavior and preferences (Passemard, 2000).

Customers not only expect lower prices, but also a wide and varied range of products, shorter delivery times, good technical assistance, improved payment terms and efficient distribution channels (Passemard, 2000). The company through competitive advantage therefore influence development of strategies based on customer service, enhancing differentiation of their products and to maintain competitive advantage making it more lasting than that just guaranteed by low prices. An advantage seems to be particularly tied to the quantity and quality of services that cannot be imitated by competitors (Quinn, 1988; Barney, 1991)

2.4.2 Capabilities/Resources utilization

Dynamic capabilities integrate; reconfigure, gain, and release resources to match and even create market change. Therefore, organizational processes shaped by the company's asset position and molded by its evolutionary and co-evolutionary paths, explain the essence of the company's dynamic capabilities and its competitive advantage (Barney, 2009). Dynamic capabilities involve path dependencies that leverage the growth of related resources, which are called weak form dynamic capabilities, and also use new and unrelated ones called strong form dynamic capabilities.

Competitive strategies enhance firm's ability to utilize its resources effectively. An example of a capability is the ability to bring a product to market faster than competitors. Such capabilities are embedded in the routines of the organization and are not easily documented as procedures and thus are difficult for competitors to replicate. The firm's resources and capabilities together form its distinctive competencies. These competencies enable innovation, efficiency, quality, and customer responsiveness, all of which can be leveraged to create a cost advantage or a differentiation advantage, (Christensen,1997). Competitive advantage influences the use of resources and capabilities to achieve either a lower cost structure or a differentiated product (Porter, 1985).

Another important decision is how broad or narrow a market segment to target. Porter formed a matrix using cost advantage, differentiation advantage, and a broad or narrow focus to identify a set of generic strategies that the firm can pursue to create and sustain a competitive advantage. The firm use competitive advantage to continue with value creating activities in a way that it creates more overall value than competitors. Firms through competitive advantage improve manufacturing of superior value created through lower costs or superior benefits to the consumer.

2.4.3 Cost advantage

The cost advantage of manufacturing enables the company systematic efforts to increase efficiency in its operations and results in the production cost per unit, lower cost of goods sold and selling price to end-user in the export markets (Morgan *et al.,* 2004). The companies with cost advantage create more value for their customers by offering their products and services at a lower price, mainly due to the economies or diseconomies of scale for each activity, learning that improves knowledge and processes independently of scale, the patterns of capacity utilization, and the linkages that are present when the way one activity is performed affects another activity (Day and Wensley, 1988).

In the firm's behavior oriented by cost leadership, competitive advantage is pursued through economies of scale, exploitation of the experience curve and rigorous control of overhead costs. Differentiation policies rest upon the entrepreneur's ability to stand out against its direct competitors not only at the price factor, but also as regards the upgrading of products, the technical assistance given to customers and the selection of efficient distribution channels, that is the non-price factors of competition (Lau, 2002).

Cost advantages are known as positional advantages since they describe the firm's position in the industry as a leader in cost. A resource-based view emphasizes that a firm utilizes its resources and capabilities to create a competitive advantage that ultimately results in superior value creation.

Lower cost advantage to a section of market segments with basic services offered to higher priced market leaders is also a strategy acceptable in the corporate world. It results to similar products to much higher priced products that can also be acceptable to sufficient customers in the market. It concentrates on a narrow segment and within that segment it attempts to achieve cost advantage. The premise is that the need of the group can be better serviced by focusing entirely on it; hence enjoy high degree of customer loyalty, which discourages other firms from competing directly. Cost leadership is achieved not only by rational management of the production function, but also by skillful maneuvering of all the inter functional relationships within the enterprise system in order to reduce coordination costs and enables the firm to use the price weapon with some discretion (Clulow, Gerstman and Barry, 2003).

2.4.4 Differentiation advantage

Product differentiation, is obtained by suitably mixing marketing elements other than price, i.e. the ability to modify the tangible and intangible characteristics of the goods or services provided to the consumer (this policy enhances the non-price competitiveness of the firm).

The ability of differentiation to help the firm achieve a low-cost position depends on two factors: the extent to which expenditure on differentiation significantly increases demand, shifting the demand curve to the right; and the extent to which significant reductions in unit costs arise from increasing volume. Both of these factors are situation dependent, and they form the basis for the contingency framework. Hill (1988) explained that the immediate effect of differentiation will be to increase unit costs. However, if costs fall with increasing volume, the long-run effect may be to reduce unit costs. Three sources of declining costs can be identified: learning effects, economies of scale, and economies of scope.

The impact that differentiation has on demand depends on three major contingencies; the ability of the firm to differentiate its product, the competitive nature of the product market environment, and the commitment of consumers to the products of rival firms. The number of attributes inherent in a product creates scope for differentiation. However, there is not a direct linear relationship between number of attributes and opportunities for differentiation. It is possible to differentiate a relatively homogeneous product if the psychological characteristics of consumers are diverse (Hill, 1988).

2.4.5 Distribution advantage

The delivery system in a manufacturing company is a mix of human resources, locations, and equipment. The human skills must be developed to gain every possible competitive advantage out of technology and to forecast trends in technology so that new opportunities are identified early.

Using an effective and profitable mix of locations, physical facilities, information technology, and human resources is a vital aspect for developing a company's competitive position in the marketplace. However, not all companies are the same in designing their delivery system mix. For example, a company's large corporate customer may need to do their business at the main facility

2.4.6 Competitive advantage through innovation

Demands for innovation and technological advancement are increasingly crucial components of competitive strategy for many manufacturing firms (Miller 1989). Most manufacturing companies face serious competitive challenges due to the rapid pace and unpredictability of technology change and failure to utilize innovation as a competitive advantage (Ansoff, 1988).

Given the array of capabilities needed to sustain effective corporate entrepreneurship, competitive advantage provides the company with an attractive source of innovations to create positive synergy for the firm. Likewise, if the innovation process or the outcomes of innovation are difficult to copy, then it becomes an increasingly important ingredient in sustaining competitive advantage.

Fisher, (1990) suggested that beer manufacturing products from, function, pricing, and distribution offer potential avenues for reducing imitability for innovative advantage. Others argue that managerial innovations advantages, such as the strategic management of human resources (Schuler and Jackson, 1989), or information-based innovations, such as new market research techniques, provide more durable routes to competitive positioning that can be gained from product innovations. Parker, (2002), recommended that firms could only specialize in developing technologies that have pivotal importance to their business in order to protect imitability of key competitive elements. The common thread is identifying outcomes that are difficult for other firms to replicate (Knox ,2002).

The competitive advantage outcomes are no better if a firm chooses to resist change as it innovates and diversifies. The consequences of neglected structural and cultural implications of increased diversification and organizational differentiation particularly where new products often require new structures to foster market exploitation. Therefore, competitive activities must be compatible with a firm's ability to manage potentially radical organizational change.

According to Gaynor (2002), innovative advantage and subsequent requirements for sustained exploitation, provides incentives for change in the strategic configuration. Innovative advantage might enable a firm to broaden its market appeal by introducing cost savings as well as unique features. Successful adaptability requires both knowing when to change and knowing when change is not appropriate (Tushman and Nadler, 1986). Innovation advantage that help a firm make correct choices will have a greater probability of maintaining competitive advantage. As Clark (1987) points out, the foundation of competitive advantage influences a firms utilization of capabilities such as human skills and relationships, material resources, and relevant knowledge that a firm uses to build products and deliver services having a market place appeal (Johne and Storey,1998).

2.4.7 Attainment of superior performance

Successfully implemented strategies will lift a firm to superior performance by facilitating the firm with competitive advantage to outperform current or potential players (Passemard and Calantone 2000). To gain competitive advantage a firm manipulates the various resources over which it has direct control and these resources have the ability to generate competitive advantage (Rijamampianina, 2003). Superior performance and superiority in the production resources reflects competitive advantage of a firm. (Lau, 2002).

Competitive advantage is a key determinant of superior performance and it will ensure survival and prominent placing in the market. Superior performance being the ultimate desired goal of a firm, competitive advantage becomes the foundation highlighting the significant importance to develop the same.

2.4.8 Achievement of market leadership

This signifies competitive advantage as the ability to stay ahead of present or potential competition, thus superior performance reached through competitive advantage will ensure market leadership. It also provides the understanding that resources held by a firm and the business strategy that a firm employs will have a profound impact on generating competitive advantage.

Powell (2001) views business strategy as the tool that manipulates the resources and creates competitive advantage; hence viable business strategy may not be adequate unless it possess control over unique resources that have the ability to create unique advantages.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter presented the research design and methodology of the study. It entailed the study design, the population, the data collection techniques and the data analysis procedure.

3.2 Research design

This was a case study since the unit of analysis is one organization. A case study which aimed at getting detailed information from staff who were experienced in operations regarding the factors that influence competitive advantage in EABL.

According to Mugenda (2008), a case study allows an investigation to retain the holistic and meaningful characteristics of real life events. Kothari, (2004) noted that a case study involves a careful and complete observation of social units. It is a method of study in which in-depth or full analysis of a limited number of events or conditions and other interrelations are investigated.

3.3 Data collection

The study collected primary data. Primary data was collected using self-administered interview guide with the staff while secondary data was collected from published reports and other documents from the East Africa Breweries Limited. It included the company's publications, audited accounts, official reports and chairman's report from the company magazines.

The interview guide had open-ended questions to enable the researcher to collect sufficient qualitative data. This was used in order to gain a better understanding and possibly enable a better and more insightful interpretation of the results from the study. The interview guide was designed in this study and comprised of two sections. The first part included the general information about the East Africa Breweries Limited while the second part addressed how the management in EABL has applied competitive advantage in the company. The interview guide administered to senior management staff and included managers and head of departments working in the East Africa Breweries Limited.

3.4 Data analysis

Before processing the responses, the completed interview guide was edited for completeness and consistency. Content analysis was employed. This is a systematic detailed qualitative description of the objectives of the study. It is a general set of techniques useful for analyzing and understanding collections of the study.

The content analysis was used to analyze the qualitative data collected through interview guide on the factors influencing competitive advantage in EABL.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the discussion and interpretations of the study. The primary data was collected using interview guide and analysis through content analysis to determine the factors influencing competitive advantage by East African Breweries Limited.

4.2 Respondent Profiles

This part of the interview guide was intended to assess the capacity of the respondents to answer the questions on the interview guide and also whether they are versed with the subject matter of the study. The respondents comprised the top and middle level managers of the organization. In total; the researcher interviewed all the six respondents' that work in the Production, Marketing, Business Development, Finance, ICT and Human Resources departments. In addition, the views of both genders were represented in the respondents interviewed because three of the respondents were female against four men. This meant that the views expressed by the respondents were not gender biased. In addition, the respondents were asked to indicate the competitors of the company. On this question they were able to indicate that, EABL faces stiff competition from Keroche Brewery Company, SAB Miller and the Heineken, local brews such as chang'aa and Distell from Kenya Wine Agencies Ltd (KWAL), a government-owned wines and spirits distributor.

4.3 Sources of Competitive Advantage to EABL

This section of the interview guide sought to establish from the respondents the various sources of competitiveness to East Africa Breweries Limited.

4.3.1 Quality of Products and Services Offered

The interviewees were requested to explain how the company products and services influenced higher performance than their competitors. The interviewees explained that the company ensured delivering of the highest quality brands to East African consumers and long-term value to East African investors. The study found that the company manufactures variety of quality beer products including Tusker Lager, Tusker Malt Lager, Pilsner and White Cap Lager which are superior to products of its competitors. These products were found to be of high quality and over time have been the leading brands in Kenya. The firm also adopts a consumer driven business and as such EABL takes time to study the market and understand consumer needs and wants as well as how best to satisfy. This has therefore meant that the organization has had to invest in innovating and renovating company's brands to stay at par with dynamic consumer trends. In order to deliver the same products to the market, it was found that an effective distribution network has been developed to complement the products offered by availing to the customer the products when never it is required. The findings concurred with Ansoff, (1988) who established that the delivery system in a manufacturing company which comprised of human resources, locations, and equipment as effective tool for company to achieve competitive advantage.

The products that are dealt by the organization are also differentiated from the other brands in the market such that a variety of beer products have been manufactured and made to be readily available to the market using an elaborate network of both national and international logistical firms. Currently it was pointed that the organization has over 2,500 vehicles that are wholly dedicated to distribute its products in the market. The interviewees explained that high quality beer products, superior customer service and achieving lower costs than its rivals has enabled EABL to achieve competitive advantage in the market.

The organization was also found have adopted various changes in its principal brewing and bottling technologies by investing in new equipment so as to make competitive products. An example was highlighted whereby in the year 2011, the firm invested a total of Ksh 3.4B in the construction of a new bottling plan that once it is ready in mid 2014, the organization will be able meet its bottling target of 250,000 bottles per day. It was found that the company's philosophies were now more specific and were directed towards enhancing excellence in customer service. EABL was indicated to have made changes in the ranking of their goals. Survival now ranks as the most important goal, while before liberalization, profitability was the most important. Various policies have also been changed.

The current marketing strategies being employed by the firm advocates for more aggressive approach to be adopted in sales and at the same time adjusting product and promotion strategies depending on the product brand. These has come about due to the intensive level of competition from other players especially Keroche Breweries and SAB Miller. The products strategies have been significantly formulated and implemented to improved products in quality, features and variety. Advertising expenditures have been dramatically increased. In market research the firm has significantly increased competitive intelligence strategies on competitors and customer needs. The interviewees also indicated that the company was adopting customer satisfying strategies such as production of high quality alcoholic and non-alcoholic drinks, adjusting prices to attain satisfaction of the identified customer needs. The finding concurred with Fisher, (1990) who suggested that beer manufacturing products form, function, pricing, and distribution offer potential avenues for reducing imitability for innovative and competitive advantage.

4.3.2 Effective Implementation of Strategies in the Organization

The respondents were asked to indicate how the strategy implementation process in the organization has contributed to the organizations competitive advantage. A number of strategies adopted by the organization were identified to have contributed to the organization competitiveness. These include implementation of cost leadership strategy, differentiation strategy and control of resources. The interviewees also indicated that the company through implementation of product differentiation strategies offers a wide and varied range of products that is delivered to the market at shorter period. The organization is also endowed with good technical assistance and practices improved payment terms. This findings are consistent with that of Passemard (2000) in which he pointed that new competitive factors, product or service advantage were reported to play a major role in the achievement of organization superior performance where the supply of products and innovative manufacturers consider it as an intrinsic part of the product offered to the end market.

On how the above sources of competitive advantage have affected the organization performance, the respondents noted that the company has been able to increase its market share and offer quality products. In addition, it was found that the firm has access to natural resources such as barley, an important ingredient to beer processing unlike competitors who have to import a good proportion of the same at a higher cost. This finding concurs with that of Thompson and Strickland, (2002) who indicated that a company has a competitive advantage whenever it has an edge over its rivals in securing customer and defending against competitive forces.

On whether strategies implemented by EABL influence effective control of resources that results in achievement of superior beer production over it competitors, the interviewees indicated that through competitive strategies it has employed, EABL has increased its market penetration especially in the new markets such as Southern Sudan. They pointed that currently EABL commands a market share of 55% in the country and this is expected to increase considering that it only had 28% three years ago. The firm was also found to have outsourced the non-core services such as distribution, security, promotion of its products using the road shows. These strategies were highlighted to have created an addition competitive advantage due to the cost reduction that it comes with. The company's resources and capabilities together form its distinctive competencies which has enabled innovation, efficiency, quality, and customer responsiveness, which leveraged to create a cost advantage. The study concurred with Barney, (2009) who found that focusing on the increases of functional knowledge and routines such as performing distribution logistics and advertising campaigns more efficiently than competitors; gives an organization necessary competitiveness to retain its market share.

4.3.3 Product Innovation Capability

An organization should continuously develop products that meet the demands of the customer. Since the customer demands change from time to time, it becomes imperative that an organization should come up with a mechanism of innovating new products that will meet the customer requirement. On the question of how the company has been able to meet this challenge, the respondents noted that the organization has been able to develop and launch 3 new beer brands in the last 8 years. This was noted to require substantial amounts of resource, both manpower and financial resources to actualize them. The study found that currently, the company offers beer under Tusker, Pilsner, White Cap, Allsopps, Guinness, and Bell brand names; non-alcoholic drinks under Malta Guinness and Alvaro brands and spirits under Johnnie Walker, Smirnoff, Richot, Bond, and Waragi brands. Further the company offer innovative products such as Balozi at low cost.

The ability to innovate depends among others the entrepreneurship capacity of its employees. On the question of how the organization entrepreneurship has been able to increase the firms innovation capacity, the respondents noted that the company business development division has been able to come up with innovations which was difficult to be copied by the rivals such as implementing marketing strategies, information-based innovations, such as new market research techniques, provide more durable routes to competitive positioning that enabled the company to gain from company entrepreneurial innovativeness. The finding concurred with Fisher, (1990) who found that beer manufacturing companies products form, function, pricing, and distribution offer potential avenues for reducing imitability for innovative advantage.

The study found that, the innovation formulation and implementation had led EABL to be strategically positioned as ideal beer industry for regional businesses in East Africa. They indicated that the innovation approach adopted by the EABL enabled the company to develop new beer products such as Balozi, Allsopps, Guinness, and Bell brand names, non-alcoholic drinks such as Malta Guinness and Alvaro brands and spirits under Johnnie Walker,

4.3.4 Distribution of Company Products

The ability of a firm to produce quality product does not serve it much if the same cannot reach the market. Therefore, there is need for the business unit to develop and employ effective and efficient distribution system whereby it will facilitate the availability of the product in the market. From the findings, interviewees indicated that the company has enhanced its delivery system by realigning its human resources, depots location, modern transporting vehicles fitted with cooling plants and fittings and equipment that are used in handling the company loading and off- loading.

From the strategy of outsourcing the distribution strategy, it was found that EABL has been able to achieve cost savings from its operation. It was noted that as a result of outsourcing, the company has been able to reduce the distribution cost per bottle from an average of Ksh 8.5 five years ago to the present cost of around Ksh 5.75. The interviewees explained that the company adopted lower costs to a section of market segments with basic services offered to higher priced market leaders to achieve cost advantage. The interviewees also explained that low costs enabled the company to enjoy high degree of customer loyalty and lock out rival in the market. The company was found to adopt technology and acquire highly qualified human resources in the entire department to improve on competencies in manufacturing and production improving quality of the products. The study also found that the company had attained rational management of the production function in the company. It was also found that EABL was skillful in maneuvering of all inter functional relationships within the company in order to reduce coordination costs and enables the firm to use the price weapon with some discretion.

4.3.5 Marketing leadership

The interviewees were requested to indicate the role of competitive advantage in achieving market leadership in beer manufacturing sector in Kenya. The interviewees explained that production of quality and superior alcoholic and non-alcoholic products effective distribution and marketing enable the companies to be a market leaders. Powell (2001) views business strategy as the tool that manipulates the resources and creates competitive advantage; hence viable business strategy may not be adequate unless it possess control over unique resources that have the ability to create unique advantages.

The company was found to focus on improving superior performance, attaining market leadership and attain competitive advantage. Market leadership was found to require the understanding of amount of resources held by the company and the business strategy that the company employs impact on pro-founding generating competitive advantage .The finding were in line with Powell (2001) who viewed business strategy as the tool that manipulates the resources and creates competitive advantage in a firm.

4.3.6 Target Marketing Strategies

Another strategy that was employed by EABL to gain a competitive advantage in the local beer market was target marketing. This is due to the cognizance of the local market that different consumers prefer different types of products depending on their prices. The interviewees indicated that East African Breweries Limited (EABL) through innovation strategies has introduced quality Balozi beer brand in the local market which was a malt-based, sugar-free brand and senator which were low cost beer products to attract the middle and low income earners increase and increase its market share. They further observed that due to its innovativeness the Company produces and effectively markets, distributes and sells an extensive portfolio of alcoholic beverages flagship beer brand, Tusker Beer, Baileys, Smirnoff *and* Black Label. The organization was found to continue engaging in development of new products aimed at creating different new brands and engaging in traditional liquor segment. The findings concurred with Lau, (2002) who posted that successfully implemented innovation strategies would enable the firm attain superior performance by facilitating the firm with competitive advantage to outperform current or potential players.

4.4 Discussion

Today's market is enormously more complex. Henceforth, to survive in the market, the company not only needs to maximize its profit but also needs to satisfy its customers and should they to build upon from there. The essence of competitive strategy for a company is to find a position in its industry where it can best cope with these competitive forces or can influence them in its favor. Knowledge of the underlying sources of competitive pressure can reveal the basic attractiveness of an industry, highlight the critical strengths of competitiveness in the case of EABL was found to be through pricing strategy, flexibility in working hours, use of cost leadership strategy, unique corporate culture and branding , differentiation strategy, speed of finalizing a transaction and different products. This competitiveness is a result of the resources that the organization have and also the strategies adopted. Organizations that can active concurrent business process and core competences that merge infrastructures, share risks and costs, leverage the shortness of today's product life-cycle reduce time to market and gain and anticipate new vitas for competitive leadership.

EABL was found to be utilizing the resources based strategy and this resulted in many potential advantages for firms such as the achievement of greater efficiency and therefore lower costs, increased quality and the possibility of greater market share and /or profitability. The resource-based theory argues the any firm is essentially a pool of resources and capabilities which determine the strategy and performance of the firm; and if all firms in the market have the same pool of resources and capabilities, all firms will create the same value and thus no competitive advantage is available in the industry (Barney, 1991). The key to success is to have a well planned strategy, to establish policies and to constantly monitor prices and operating costs to ensure profits. The pricing strategy was being used by the organization to in order come up with optimum price that would be acceptable to the customers. The results are consistent with Varki and Colgate (2001) findings which identified that the role of price, as an attribute of performance, may have a direct effect on customers' satisfaction and behavioral intentions. The findings studied on bank customers' switching behaviour in Australia and New Zealand identified price as the most important switching determinant, followed by service failures and denial of services.

The strengths of an organization in conjunction with other strategies as it is not prudent for the company to use the strategy alone. David (2000) noted that midsize and large firms use focus-based strategies but only in conjunction with differentiation or cost leadership genetic strategies. But, Focus strategies are most effective when consumers have distinct preferences and when the niche has not been pursued by rival firms, Spulber,(2009) established that by pursuing low costs, companies not only operate efficiently, but also become an effective price leader, undermining competitor's growth in the industry through its success at price war and undercutting the profitability of competitors. If the firm's cost of sale or cost of raw material is lower than its competitors, then the firm can offer lower prices, higher quality, or both. The firm pursued low cost strategy that enabled them to maintain costs at lower levels and thus they are able to secure a relatively large market share by being lowest cost producers or service providers in their industry or market. Product differentiation fulfils a customer need and involves tailoring the product or service to the customer and this was the reason the foreign exchange organization pursued the strategy. McCracken (2002) noted that the key step in devising a differentiation strategy is to determine what makes a company different from a image, graphical reach, involvement in client organizations, product delivery system, and the marketing approach have been suggested to differentiate a firm.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents discussion, conclusion and recommendations of the study basing on the objective of the study which was to establish factors that influenced competitive advantage by East African Breweries Limited within the beer sector in Kenya.

5.2 Summary of the findings

The study established that the company faces stiff competition from new entrants in the Kenyan market and also proliferation of illicit brews. The firm has vented off the competition by developing different products that target different markets including Tusker Lager, Tusker Malt Lager, Pilsner and White Cap Lager which are superior to products of its competitors. The company was therefore found to employ consumer driven business and this was only possible through EABL studying the market and understanding consumer needs and wants as well as how best to satisfy. This was made possible through innovating and renovating company's brands to stay at par with dynamic consumer trends.

The study revealed that EABL had made various changes in its principal brewing and bottling technologies by investing in new equipment so as to make its products competitive. The company was found to have changed the basic products by adding new features. Initiatives to penetrate new market niches were also adopted. The company's marketing strategies was found to employ more aggressive approach while adjusting product and promotion strategies and this has been achieved through increase in advertising expenditures. The company was also found to be adopting customer satisfying strategies such as production of high quality alcoholic and non-alcoholic drinks, adjusting prices to attain satisfaction of the identified customer needs. The implementation of product differentiation in the company enabled the company to produce high quality beer products satisfying different market where ccustomers are sold products that match their expenditure.

The ability of the firm to distribute its products effectively was also found to be a source of competitive advantage. The study found that the company had outsourced most of its distribution of products and allocates the distributors different regions for ease of market coverage. The distribution advantage in EABL influenced high-value production activities encompassing manufacturing and complementary innovation, services and sales function providing a manufacturing advantage. The distribution advantage was influenced utilization of mix delivery system in a manufacturing company including company human resources, locations, and equipment to gain every possible competitive advantage.

The study established that EABL took advantage of good climate , availability of barley, affordable labour, local market for beer per capital consumption at 14 liters, access to the regional markets like COMESA and the East African Community, Kenya's strategic location in the East African coast which provided accessibility to the East and Central African markets via International seaport/airport to gain high market share, .The company was also found to adopt innovation, product differentiation and low cost strategies in production and manufacturing quality beer products targeting different segments in the market. In addition, the study further found that EABL took the advantage of existing investor friendly policies to include the liberalization of marketing and processing of cereals and other agro produce, removal of duties on importation of farm inputs and free repatriation of capital and profit to increase its operation and expand its market share in the market.

5.3 Conclusion

From the research findings, it can be concluded that a firm's competitive advantage is not sourced from adoption of one strategy but a combination of several strategies together. Thus, the essence of competitive advantage is the ability to contribute more value added to customers than competitors in a competitive environment. It endeavors to drive the largest gap between the buyer's willingness-to-pay and the supplier's opportunity cost.

Competitive advantage is the result of a firm's planned strategy. The strategic direction is realized through the ability to achieve competitive advantage than the competitors. As seen, many factors are equally important in producing a position of success. Some of these are industrial factors; others are resources and competencies of the firm. The sum of all these factors results in creating and sustaining a successful competitive advantage. The findings indicate that the EABL use various strategies, resources and capabilities in order to achieve competitive advantage.

Customer satisfaction is very vital for the success of any business. The study showed that the EABL does all they can to ensure that customer expectations are met and these include good customer service, strategic location of distribution outlets and interior décor of the selling outlets were found to be effective strategies that have increased the firms' competitive advantage. In addition, the high quality of differentiated products marketed by EABL has given it the necessary competitive advantage and using a few of its product range as its flagship products have given it essential competitiveness in the beer industry in Kenya. There is need for a company therefore to be market driven and not necessarily produce similar products as that of the competitor. In the case of EABL, one way in which it has been able to achieve competitive advantage is taking time to study the market and understand consumer needs and wants as well as how best to satisfy them before launching a product that will meet the identified demand.

The study concluded that the company adopted product differentiation strategies which enable it to offer variety of beer products to different market segment offering high quality beer products, superior customer service and achieving lower costs alcohol than its rivals achieving competitive advantage in the market. The company had made various changes in its principal brewing and bottling technologies by investing in new equipment so as to make competitive products. The company was found to have changed the basic products by adding new features. Initiatives to penetrate new market niches were also adopted.

5.4 Recommendations

The study has established that EABL uses several strategies in order to ensure that they achieve competitive advantage and it is recommended that firms should use only those strategies which would ensure that they maximize the advantage in order to reduce costs to manageable level.

The study has established that EABL has identified internal resources such as staff and production capacity through the use of modern technology as an important source of competitive advantage. It is recommended therefore that the organization continues to invest in staff training and development programs because with the increase of the level of competition, it is the internal capabilities that are inimitable that will continue to give the firm the necessary competitiveness in the market. The organization should also invest in the product research and development and adoption of modern manufacturing technologies that are efficient and environmentally sustainable.

The organization has created a unique product quality in the market that is differentiated and it's therefore recommended that they continue investing in coming up with unique products that meet different market segments to continue differentiating themselves. The organization should ensure that before pricing its products, they should study what the market charges so that they set at a price which is acceptable to the current and potential students.

5.5 Limitations

One of the limitations of this research is the possible biasness on the part of the respondents because for any study making use of a questionnaire, there is a possibility that the answers from the respondents for all questions are not true' this study is no exception. Because the questionnaire questions were personally administered and all question asked were related to the competitive strategies adopted by the EABL, the respondents might not give the correct position for fear of exposing their strategies researcher reserves the right to believe that the responses were true and honest to the extent of knowledge of the respond and contain minimum level of biasness.

The second limitation, the number of respondents, was finalized based on the number of questionnaire that were submitted to the respondents and not all of them were received back which therefore limited the total number of respondents involved in the research, However, it is assumed that their responses are representative of that what will have been given by the other respondents.

5.6 Suggestion for Further Study

The study focused on factors that are the source of competitive advantage to East African breweries Limited within beer manufacturing sector in Kenya. It recommends that a further study should be carried out focusing on all the major players in the beer industry in Kenya and establishing the respective firms' sources of competitive advantage.

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APPENDICES

Appendix I: Interview Guide

Application of Competitive Advantage in EABL

PART A: DEMOGRAPHIC INFORMATION

1. When did you join EABL ?
2. What level of education have you attained?
3. What is your department?

B. APPLICATION OF COMPETITIVE ADVANTAGE IN EABL

4. Who would you say are your competitors?

4. How do the products and services you provide make you perform better than your competitors?
5. How does a competitive strategy at EABL influence company capabilities utilization?

6. What is the role of cost advantage attained at EABL?

7. How does the implementation of differentiation advantage influence your company in outperforming its competitors in the market?

8. How has the attainment of competitive advantage has influenced EABL in outperforming it competitors in the market?

9. Does strategies implemented by EABL influence effective control of resources achieving superiority in beer production over it competitors?

10. How does competitive advantage at EABL influence achieving high profits, increased beer sales and attract high number of customers compared to its competitors in beer manufacturing sector in Kenya?

11. What factors influence achievement of distribution advantage in the EABL Company?

12. What are the outcomes of EABL distribution advantage in beer manufacturing market?

13. What factors influence the implementation of innovation strategies in EABL?

14. How does company corporate entrepreneurship provide innovations in creating positive synergies for the company?

15. How has company innovation influenced the following company roles?

    Product form

    The Company Manufacturing Functions

    Pricing of the Company Beer products

    Distribution of Company products

16. How does competitive advantage influence EABL in achieving market leadership in beer manufacturing market?

17. What are the factors that make East Africa Breweries Limited lead in beer manufacturing in the market?

18. What are the business strategies implemented by EABL that have led to the attainment of high market share in beer manufacturing industry?

19. What is the role of competitive advantage in achieving market leadership in beer manufacturing sector in Kenya?

20. Have the innovation strategies adopted by your company led to offering of superior beer products low costs than its competitors in the markets?