APPLICATION OF VALUE INNOVATION AS THE BASIS FOR BLUE OCEAN STRATEGY AT SAFARICOM LIMITED

By

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DECLARATION

I declare that this is my own original work and to the best of my knowledge it has not been submitted for a degree award in any other university or institution of higher learning.

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D61/70882/2008

The research project has been submitted for moderation with my approval as university supervisor.

Signature……………………………………Date………………………………

Professor Evans Aosa

Supervisor
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With heartfelt gratitude, I would wish to acknowledge my supervisor Professor Aosa for his guidance, time and the encouragement he has provided throughout the period of my studies.

I also thank my family, friends and colleagues for their time, moral and material support that they provided to ensure I succeed in my studies. More so, I would like to thank the Almighty God for always being with me and making everything a success and blessing.
DEDICATION

This research project is dedicated to my family with love; for their unending encouragement and support which was vital in acquiring this achievement. May the Almighty God bless and reward them abundantly. To also the late Vincent Ngochi and the late James Wamagata who i wish would have seen what we saw.
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<th>Acronym</th>
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<td>IS</td>
<td>Integrated Systems</td>
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<tr>
<td>ITU</td>
<td>International Telecommunications Union</td>
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<td>US</td>
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ABSTRACT

The strategy that leads the organization to the blue ocean is not the traditional strategies such as infiltration in other areas of business and services, cost reduction and assignment, but also innovations of value making as a strategy whose adoption has led to cost reduction and at the same time added more value to the organization stakeholders. The research objective of this study was to find out if the application of value innovation as the basis for blue ocean strategy at Safaricom Limited. The research design for the study was a case study. The data collection tool that was used for the study was an interview guide to obtain data from primary sources. The study was conducted in Safaricom Kenya Limited and was specifically conducted at the company’s headquarter in Westlands, due to its expansive size and location, hence making it cost and time effective. According to the Safaricom Report (2012), the head office in Westlands has 24 senior managers and these were the study’s key respondents. Content analysis technique was used to analyze the data. The study found out that Safaricom has in this respect incorporated abroad range of promotional activities in its marketing programs. Safaricom Limited management has clearly defined its product concept as an objective in customer’s terms in order to deliver the expected value. The study also recommends that the companies should also strive to ensure product range extension, product replacement, product improvement, product repositioning and new product introduction to enable the company be more productive, grow faster, invest more and also perform better. The investigative nature of the study sparked misplaced suspicion. Respondents feared that the study intends to implicate individuals in a negative way. To this end, this suspicion offered resistance and lack of cooperation. The researcher however eliminated this paranoia by clarifying the objectives of the study. There was reluctance by some of the respondents to be interviewed while others declined to be interviewed at all. Even though the researcher made an effort to explain to the respondents about the potential benefits of the study, the response was still low. The study therefore recommends that a research be conducted with an aim of investigating the application of value innovation as the basis for blue ocean strategy by mobile telephone service providers in Kenya.
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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Companies have long engaged in head to head competition in search of sustained, profitable growth. They have fought for competitive advantage, battled over market share and struggled for differentiation. Yet in today’s overcrowded industries, competing head on results in nothing but a bloody “red ocean” of rivals fighting over a shrinking profit pool. While most companies compete within such red oceans, this strategy is increasingly unlikely to create profitable growth in the future. Tomorrow’s leading companies will succeed not by battling competitors, but by creating “blue oceans” of uncontested market space ripe for growth. Such strategic moves termed “value innovation” create powerful leaps in value for both the firm and its buyers, rendering rivals obsolete and unleashing new demand (Kim and Mauborgne, 2005).

In today's global and dynamic competitive environment, product innovation is becoming more and more relevant, mainly as a result of three major trends: intense international competition, fragmented and demanding markets and diverse and rapidly changing technologies (Storey and Easingwood, 2008). Firms that offer products that are adapted to the needs and wants of target customers and that market them faster and more efficiently than their competitors are in a better position to create a sustainable competitive advantage (Ghobadian and Gallear, 2006). Competitive advantage is increasingly derived from knowledge and technological skills and experience in the creation of new products.
For the past decade, Safaricom Limited has dominated the telecommunication industry in Kenya with an average of 80% of the market belonging to them. M-Pesa was first launched by the Kenyan mobile network operator Safaricom and quickly captured a significant market share for cash transfers and grew astoundingly fast, capturing 17 million subscribers by December 2011 in Kenya alone. The most recent product from the company is M-Shwari which was launched in 2012. Other services that Safaricom Limited has been able to offer include the roaming service offered to both Safaricom Limited subscribers and incoming roamers (Safaricom Report 2010).

1.1.1 Blue Ocean Strategy

As the market space gets crowded, prospects for profits and growth are reduced. Competition turns the ocean bloody hence, the term red ocean. Blue ocean denotes all the industries not in existence today; the unknown market space untainted by competition. In blue ocean, demand is created rather than fought over. There is ample opportunity for growth that is both profitable and rapid. In blue ocean, competition is irrelevant because the rules of the game are waiting to be set. Blue ocean is an analogy to describe the wider, deeper potential of market space that is not yet explored. Although the term may be new, blue ocean has always been in existence (Micco et al, 2004).

Today, one hardly talks about strategy without using the language of competition. The term that best symbolizes this is competitive advantage. Companies are often driven to outperform rivals and capture greater shares of existing market space. Of course, competition matters (Rosenberg, 2006).
However, by focusing on competition, scholars, companies and consultants have ignored two very important things: one is to find and develop markets where there is little or no competition (blue ocean) and the other is to exploit and protect blue oceans. These challenges are very different from those to which strategists have devoted most of their attention.

Blue oceans are not only about technology innovation. Leading edge technology is sometimes involved in the creation of blue oceans, but it is not a defining feature of them. Perhaps the most important feature of blue ocean strategy is that it rejects the fundamental tenet of conventional strategy: that a trade off exits between value and cost. A rejection of the tradeoff between low cost and differentiation implies a fundamental change in strategic mind-set. The red ocean assumes that industry’s structural conditions are given and firms are forced to compete within them. This is based on an intellectual worldview that academicians call the structural view or environmental determinism. According to Ghobadian and Gallear (2006), companies and managers are largely at the mercy of economic forces greater than themselves. In blue ocean strategy market boundaries and industries can be reconstructed by the actions and beliefs of industry players. We call this the re-constructionist view.

A blue ocean is created in the region where a company’s actions favorably affect both its cost structure and its value proposition to buyers (Storey and Easingwood, 2008). Cost savings are made by eliminating and reducing the factors an industry competes on. Buyer value is lifted by raising and creating elements the industry has never offered.
Over time, costs are reduced further as the scale of economies kicks in, due to the high sales volumes that superior value generates. There is ample opportunity for growth that is both profitable and rapid. In summary, blue ocean strategy is mainly on how to create uncontested market space.

1.1.2 Value Innovation

Value innovation is first seen as a way to create new forms of value for customers, in addition to internal cost and efficiency related innovation. These companies and their executives and staff know that the key to innovation is value creation for customers, in the sense that all innovation efforts must be aimed at creating superior customer value. This can be in the form of new or improved products and services or process innovations that reduce cost and therefore allow for more competitive pricing while achieving solid margins (Bessant and Francis 2009).

Damanpour (2006) noted that in the current world, value innovation performance is a crucial determinant of competitiveness and organization at progress. New types of corporate and business strategies are being explored: industry consolidation, better market segmentation, expanded product offerings and changed delivery channels (McNair, 2000). Joint ventures and strategic alliances between companies have proliferated.

Innovation connotes something that is essentially new, however to create business value does not necessarily have to be new to the world. It can be new to an industry or new to your customers or a new advance to your internal processes and hence cost reducing. It can be a new business model (Kakabadse and Kakabadse 2008).
Clearly it can be new products, services, technologies or processes. There is no value in it being new for the sake of being new. It must be new meaning different to some extent and value creating to be a successful innovation. If it is new and not value creating, in that it does not pass the tests of a new item, then it is an ‘Edsel’, meaning new but not valuable to customers, therefore not a successful innovation (Kim and Mauborgne 2009).

1.1.3 Telecommunication Sector in Kenya

The telecommunications industry in Kenya, just like the rest of the world, is going through profound changes. In the past decade, technological advancement and regulatory restructuring have transformed the industry. Markets that were formerly distinct, discrete and vertical have merged across their old boundaries with a massive investment of capital, much of it originating from private sector participants. The result is new markets, players and challenges.

Market liberalization efforts have also picked up resulting to the successful partial privatization of Telkom Kenya Limited (December 2007), divestment of Government of Kenya’s 25% stake in Safaricom Limited through a public listing (May 2012) and the launch of fourth mobile operator Econet Wireless Kenya (November 2011). This has resulted into some of the world’s best known telecommunication providers such as Vodafone, France Telecom’s and Essar Communications through their investments in Safaricom Limited, Telkom Kenya Limited and Econet Limited respectively being major players in the Kenyan market (Mwarangu, 2009).
The Kenyan mobile telephony industry now accounts for 7% of mobile telephone subscribers in sub-Saharan Africa. Kenya had 23.4 million mobile telephone subscribers by end of June 2012, translating to 45.7% penetration (Communications Commission of Kenya, 2010-2011). The International Telecommunications Union (ITU) report says Kenya has the third highest number of subscribers, after Nigeria and South Africa that respectively account for 26% and 19% of mobile cellular subscriptions in sub-Saharan Africa. Mobile penetration in Kenya's telecommunication market will grow by 95% over the next five years. Kenya shows impressive growth rates with significant opportunity according to an analyst at Pyramid Research and author of the report. By the end of 2011, Kenya had more than 22 million mobile subscribers, with a mobile penetration rate of 39%. The subscriber base is expected to rise to 29.28 million or 66.7% penetration, by year end 2013.

1.1.4 Safaricom Limited

Safaricom Limited is the leading mobile telephone operator in Kenya with a 16.9 million (76.7%) market share, followed by Airtel Kenya with 4.4 million (20%) market share, Orange with 0.7 million (3%) and Yu with 1.1 million (5%) (Safaricom Report, 2010). It was formed in 2007 as a fully owned subsidiary of Telkom Kenya. In May 2000, Vodafone Group plc, the world’s largest telecommunication company acquired a 40% stake and management responsibility for the company. Safaricom’s aim is to remain the leading mobile network operator in Kenya. The company has developed a wide range of services to meet the needs of its subscribers. The increasing number of subscribers has had a positive influence on the company’s profitability.
The company’s turnover rose from US$280 million in 2004-2005 to US$875 million in 2008-2009 (Safaricom Report, 2010). In the modern world of globalization, Safaricom Limited has been able to keep pace with the global mobile telecommunications market by having strategic business associations, which help in meeting the dynamic challenges of the modern mobile telecommunications world (Kenya Telecommunications Report, 2010). Its strategic association with the world leaders in mobile telephony has created a niche in the Kenyan market.

1.2 Research Problem

The strategy that leads the organization to the blue ocean is not the traditional strategies such as infiltration in other areas of business and services, cost reduction and assignment, but also innovations of value making as a strategy whose adoption has led to cost reduction and at the same time added more value to the organization stakeholders (Rothwell, 2010). Blue ocean strategy is therefore mainly relying on value innovation and when it turns to reality makes simultaneously a business and develops new values and new demands. This is despite the fact that the telecommunication industry environment has been affected adversely by the changing operating environment calling for adoption of innovation strategies to enhance a competitive edge in the markets.

In many countries, the pace of change in telecommunication industry is dramatic. Frequently reported trends are blurring off industry boundaries, deregulation and globalization, pressures from new and existing competitors, rapidly advancing information technology and increased customer sophistication.
The telecommunication industry worldwide is becoming increasingly interrelated. Safaricom Limited has adopted innovation strategies in various ways which include data, M-Pesa as well as partnerships with several organizations. During the period of innovation they have experienced performance in aspects of market share and profitability. There are concerns that these innovations might add value to the organization (Safaricom Report, 2010). There is a knowledge gap with regards to the effects of the various innovation strategies pursued by organizations and the overall performance. The knowledge on how the application value innovation as the basis for blue ocean strategy affects performance of the company would be important as it would enlighten the company’s management as well as other stakeholders in the industry on the approaches to take (Mwarangu, 2009).

Blue Ocean Strategy provides a systematic approach to making the competition irrelevant. Upending traditional thinking about strategy, Blue Ocean Strategy charts a bold new path to winning the future. Value innovation is the core construct for creating a blue ocean strategy in a company. It is the synchronous pursuit raising buyer value by offering differentiation within your value proposition. How has Safaricom Limited applied value innovation as the basis for blue ocean strategy?

1.3 Research Objective

The research objective of this study was to find out if the application of value innovation is the basis for blue ocean strategy at Safaricom Limited.

1.4 Value of the Study

This study would be important to the policy makers in the telecommunication industry as they would be able to know what environmental factors play a big role in shaping their operations. Another reason is that they would know how they affect innovation strategies and what strategies to use in order to remain competitive.

The study would be important to Safaricom Limited managers as it would help them understand the innovation strategies and how their understanding can help different firms enhance their innovation strategies. The study would also help other managers know the process of developing and executing the innovation strategies. The results of this study would also be invaluable to researchers and scholars, as it would form a basis for further research.
The students and academicians would use this study as a basis for discussion on innovation strategies. The study would be a source of reference material for future researchers on other related topics. It would also help other academicians who undertake the same topic in their studies.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter discusses the literature related to the application of value innovation as the basis for blue ocean strategy at Safaricom Limited. Specifically, it focuses on the theoretical foundation of the concept of the blue ocean strategy and the red ocean, blue ocean strategy development and execution. It also looks at value innovation in terms of technological, product, market and process innovations.

2.2 Theoretical Foundation

Some researchers have made some attempts to apply blue ocean strategy to some specific industries. Researchers on Indian software as a service business suggest companies in the industry need to make their services wider. Their study contributes a lot to other businesses in the country. Kim and Mauborgne (2005) explore on how to create a blue ocean for medical education in Sweden. Bessant and Francis (2009) demonstrate that blue ocean strategy helps third party logistics strengthen their core competitiveness and lower their costs.

2.2.1 Knowledge Based Theory of the Firm

The knowledge based theory of the firm considers knowledge as the most strategically significant resource of the firm. Its proponents argue that because knowledge-based resources are usually difficult to imitate and socially complex, heterogeneous knowledge bases and capabilities among firms are the major determinants of sustained competitive advantage and superior corporate performance (Grant 1996).
This knowledge is embedded and carried through multiple entities including organizational culture and identity, policies, routines, documents, systems and employees. Originating from the strategic management literature, this perspective builds upon and extends the resource-based view of the firm (Conner 1991).

Although the resource-based view of the firm recognizes the important role of knowledge in firms that achieve a competitive advantage, proponents of the knowledge-based view argue that the resource-based perspective does not go far enough. Specifically, the RBV treats knowledge as a generic resource, rather than having special characteristics. It therefore does not distinguish between different types of knowledge-based capabilities. Information technologies can play an important role in the knowledge-based view of the firm in that information systems can be used to synthesize, enhance, and expedite large-scale intra- and inter-firm knowledge management (Alavi and Leidner 2001).

2.2.2 Contingency Theory

Contingency theory is guided by the general orienting hypothesis that organizations whose internal features best match the demands of their environments, will achieve the best adaptation (Kohler, 2000). The term was coined by Lawrence and Lorsch in 1967 who argued that the amount of uncertainty and rate of change in an environment impacts the development of internal features in organizations. Different subunits within an organization may confront different external demands. To cope with these various environments, organizations create specialized subunits with differing structural features (Nonaka and Takeuchi, 2005). For example, differing levels of formalization, centralized versus decentralized and planning time horizon.
The more varied the types of environments confronted by an organization are, the more differentiated its structure needs to be. Furthermore, the more differentiated the more difficult it will be to coordinate the activities of the subunits and more resources will need to be applied for coordination.

Blue ocean strategy has been treated by many scholars as a good strategy for companies to create uncontested market space in which competition is irrelevant. Brown (2007) proves that blue ocean strategy is widely used by successful companies. Amit and Schoemaker (2003) suggest that correctly defining the market space for companies helps them find an industry they can control. Bessant and Francis (2009) compare blue ocean strategy and simply better approach and find blue ocean has advantage in identifying a clearer market space. Simply better approach lacks the consideration of the impact from consumers’ demands. Brown (2007), states that blue ocean strategy enables managers to capture unique value for consumers.

Some researchers found out that there is a mutually reinforcing relationship between blue ocean strategy and innovation. Brown (2007) says that companies create blue ocean through value innovation. Blue ocean strategy helps organizations to innovate and bring new products to market. Pursuing blue ocean leads companies to creating more value. The existence of the blue ocean forces enterprises to change, refine and enhance existing products so as to keep companies in existing markets. Innovating or even making small changes can bring companies to blue ocean where no one else is and build competitive advantages. Organizations using blue ocean strategy will bring themselves substantial advantages by countering the challenge of innovation.
Choueke and Armstrong (2008) propose that many new techniques cannot help a lot in the current highly competitive markets but contribute much to those potential markets where competition does not exist. Hammer (2000) indicates that innovation and new technology could increase companies’ competitiveness through creating new businesses in blue ocean.

Some studies of blue ocean strategy focus on its impact on corporate supplying high quality services and products. Bessant and Francis (2009) use blue ocean strategy to define industry and propose its contribution on the quality of products and services. Many scholars prove that applying blue ocean strategy can make a corporate more profitable while improving cost structure. Higgins (2005) studies the case of Anheuser-Busch using blue ocean strategy to save their costs.

2.2.3 Systems Theory

The systems theory consists of various components or sub-systems which must function together for the whole system/plan to work. This implies that if one sub-system fails, the whole system is in jeopardy. For instance for a small business to operate effectively, it should have capacity to formulate, implement and evaluate its strategies (Slater and Narver, 2005). Systems theory helps managers to look at the organization more broadly and the concept of consensus management and decision making in organizations in small organizations rely on a systems approach (Fulmer, 2002).
Three key administrative mechanisms that an organization can use to cope with uncertainty in the environment include: the design of the organizational structure (decentralization); design of control systems; and innovation of new strategies (McAdam and McClelland, 2002). Systems theory was originally proposed by Hungarian biologist Ludwig Von Bertalanffy in 1928, although it has not been applied to organizations until recently. The foundation of systems theory is that all the components of an organization are interrelated, and that changing one variable might impact many others. Organizations are viewed as open systems, continually interacting with their environment. They are in a state of dynamic equilibrium as they adapt to environmental changes advancing in innovation (Damanpour, 2006).

Clarke et al., (2000) describes systems thinking as understanding how our actions shape our reality. For instance if one believes that their current state was created by somebody else or by forces outside their control, why should they hold a vision? The central premise behind holding a vision is that somehow one can shape their future. Systems thinking helps us see how our own actions have shaped our current reality, thereby giving us confidence that we can create a different reality in the future.

A central theme of systems theory is that nonlinear relationships might exist between variables. Small changes in one variable can cause huge changes in another and large changes in a variable might have only a nominal effect on another. The concept of nonlinearity adds enormous complexity to our understanding of organizations. In fact, one of the most salient arguments against systems theory is that the complexity introduced by nonlinearity makes it difficult or impossible to fully understand the relationships between variables.
2.2.4 Organization Theory

In organization theory, the primary phenomenon of interest is the organization. Because of the complexity and pluralism of organizations, managers who make sense of and use multiple perspectives are better able to bring their knowledge of organizations theory to bear on the wide range of analyses, decisions and plans their organizations make every day, helps one see situation in different ways and this is crucial for understanding, analyzing and managing the complexities of organization life (Fulmer, 2002).

The modernist perspective focuses on the organization as independent objective entity and takes positivist approach to generating knowledge. This approach focuses on how to increase efficiency, effectiveness and other objectives through application of theories relating to structure and controls (Cumming, 2008). The symbolic interpretive perspective focuses on the organization as a community sustained by human relationship and uses a predominantly subjective ontology and interpretive epistemology instead of treating organizations as objects to be measured and analyzed (modernist perspective). Symbolic interpretive organization theory explores how meanings are created and realities made sensible to those who participate in sustaining them (Raymond et al., 2008).

The postmodernism generate healthy skepticism toward any dominant theory and challenge others to try something completely different, that is theorizing. It is argued that the best theories are those that are found or invented to match innovation experience or organization.
In strategy and finance for example, organization theory is applied to improve value of the company as those who monitor and control performance, need to understand how to achieve results by structuring activities and designing organizations processes (Higgins, 2005).

### 2.3 Development and Execution of Blue Ocean Strategy

As soon as blue ocean strategy was born, the theory of creating new demand from unknown market space has become one of the most famous theories in business administration fields. At the same time, its authors have not stopped improving their theory. Kohler (2000) proposes that blue ocean strategy helps companies to build brands and create brand equity that can last for decades. Kim and Mauborgne (2005) explained the demand in the blue ocean strategy, the reason behind the importance of the strategy in business, distinction between the strategy and innovation.

Although blue ocean strategy is distinct from innovation, it is a good strategy to achieve value innovation. Any company may use such strategy to get rid of the factors it competes upon and create something new for new market demands. For diversified businesses in multiple industries, both competition environment and companies’ structure should be taken into consideration when designing companies’ strategies (Kihumba, 2008).

Blue ocean strategy is a totally new strategy which leads companies to leave current market and go into an unknown market to reduce their costs and capture new customers from other industries hence competitiveness (McNair, 2000). This new market actually existed before but was ignored by most of the managers.
Traditional strategies and theories artificially demarcate the border of industry and leading to companies competing in current market. The service and products which can bring companies most profits may be ignored by old industry. Obviously substitute products and other factors directly or indirectly affected competition in these industries but their roles are marginalized. In many industries especially in sunset industry, as the raising of the costs and reducing of profits, companies’ survival faces serious threats. It’s useless and meaningless to use traditional strategies to capture current limited markets. It might be a good idea for companies from all existing markets to search for new markets without competitors (Nonaka and Takeuchi, 2005).

2.4 Value Innovation

Value innovation is created in the region where a company’s actions have a favourable effect on both the cost structure and the value proposition to your customers. Value innovation is the art of making competition irrelevant by creating such a leap in value for your buyers and company that you open up new and uncontested market space and swim in a sea of prosperity. This section will discuss the study variables which include technological, product, market and process which are part and percel of innovaton strategy.

2.4.1 Technological Innovations

The strength of the integrated systems (IS) approach relates to their learning, relations, dynamic and systemic aspects of innovation into account. However, IS approach is not free from criticism. For instance there are some problems in operational dynamism in systems, leading at times to a reliance on old measures and a tendency to recreate linearity.
As a starting point a definition of the overall function of the innovation system as being to develop, diffuse and use innovations (Rosenberg, 2006). This functionality is however deemed to be too broad and vague. Therefore a more elaborate analytical framework is proposed (Micco et al, 2004).

The fulfillment of functions is in turn affected by inducement and blocking mechanisms. Policymakers should search for system weaknesses in the functions, their underlying structural features (the characteristics of actors, networks, markets and institutions) and try to correct them to survive (McAdam and McClelland (2004). Ekvall (2009) claims that innovation requires a process of co evolution between technology and cultural perspectives.

Technology exerts a significant influence on the ability to innovate and is viewed both as a major source of competitive advantage and of new product innovation (Kihumba, 2008). Often, organizations experience problems in this area, which are caused by lack of capital expenditure on technology and insufficient expertise to use the technology to its maximum effectiveness.

Hammer (2000) stresses that organizations should obliterate rather than automate believing that technology is often introduced for technology's sake without contributing to the overall effectiveness of the operation. However, organizations' traditional lack of resources usually results in a compromise situation. It is important to link technology to innovation in sustaining competitiveness. Organizations that can combine customer value innovation Kim and Mauborgne (2009) with technology innovation have an increased chance of enjoying sustainable growth and profit.
If management skills and activities are conceptualized to be situation specific, then the question is what is the best way to prepare managers for the “complexity, uncertainty, uniqueness and value conflicts”? Which Schön (1988) postulates characterize organizational environments.

A systems perspective leads to the development of a broader set of strategies, policies and plans. It permits the notion of organizational development through management development. It encourages productivity and responsiveness; it leads to a better assessment of performance and overall programme effectiveness and contributes to the creation of a positive learning culture enabling the encompassing of generative learning (Doyle, 2004).

In framing management development within a more holistic perspective, systems’ thinking extends its context beyond the rational functional to include qualitative dimensions. It also produces new insights which challenge some of the fundamental assumptions on which existing conceptions of management development activity and strategy are premised.

2.4.2 Product Innovations

It is not enough to avidly engage in product innovation for its own sake; what some managers refer to as “innoflation” (Ghobadian and Gallear, 2006). It is important to delineate just what product features are to be improved or radically changed. For this purpose, analysts have differentiated between core product features and help provided in evaluating, buying and using the core product. The amount of help or support provided will depend on the needs of particular customers.
An appropriate premium price can normally be charged for support. Support provides are a potentially profitable lever for gaining competitive advantage. It enables a supplier to sell the same core products to different customer groups as different offerings (Storey and Easingwood, 2008).

Product innovation provides the most obvious means for generating revenues. Process innovation, on the other hand, provides the means for safeguarding and improving quality and also for saving costs. Improved and radically changed products are regarded as particularly important for long term business growth. The power of product innovation in helping companies retain and grow competitive position is indisputable. Products have to be updated and completely renewed for retaining strong market presence.

Different terminologies have been used to categorize and describe product development. Cooper et al, (2002), for example, embraces two distinct activities: old product development, which involves updating and improving existing products, and new product development, which involves a greater degree of innovational challenge. Doyle (2004) similarly categorized product development into primary and secondary innovations. Primary innovations were broadly concerned with the development of new markets and relate to instances where there is a high degree of technical originality and a commensurate change in consumer behaviour. Secondary innovations, on the other hand, are basically business or company focused and typically involve improvements to an existing market (Oke and Goffin, 2010).
Product portfolio decisions are the manifestation of a firm’s innovation and marketing strategies. The common approach to managing new product development is to develop and manage a portfolio of specific projects (Reinhilde and Bruno, 2009). Practically speaking, choosing the product portfolio determines the firm’s strategy for the medium term future and is senior management’s responsibility (Storey and Easingwood, 2008; Cooper et al. 2002).

Operationally, portfolio decisions involve two strategic components: a development strategy regarding the number and rate of new product introductions (introduction intensity) and a market entry strategy regarding the relative speed to market (pioneering intensity). Past research suggests that better managed firms structure their portfolios by striking a balance in the product innovation portfolio across these strategic components. However, past research has not systematically decomposed the components of portfolio strategy to examine how the components work together in relation to financial performance (Matsuno et al, 2009).

2.4.3 Market Innovations

Market innovation is concerned with improving the mix of target markets and how chosen markets are best served (Kim and Mauborgne, 2009). Its purpose is to identify better (new) potential markets; and better (new) ways to serve target markets. Market segmentation, which involves dividing a total potential market into smaller more manageable parts, is critically important if the aim is to develop the profitability of a business to the full. Incomplete market segmentation will result in a less than optimal mix of target markets, meaning that revenues, which might have been earned, are misread (Slater and Narver, 2005).
Market orientation as a business culture leads to business performance improvement, as proved by numerous studies (Slater and Narver, 2005). It is precisely product innovation that is considered as a moderator of the link between market orientation and successful business operation (Slater and Narver, 2005). Innovations have a positive impact on business performance by leading to a market share increase and/or cost reduction and, in turn, a profit rise.

Market oriented enterprises deliver superior quality products to their customers while complying with ecological, health and safety standards as well as with legal norms. Accordingly, market orientation is expected to produce a significant positive impact on all analyzed effects of innovative activities. Sales have been proposed as the most important measure of business performance on which managers should focus (Schon 2008), and is a measure of firm performance that is often closely associated with the marketing function. Similarly, gross profit is an indicator of the firm’s value chain, specifically measuring a firm’s ability to convert inputs into valuable outputs (McAdam and McClelland, 2002).

The market in which an enterprise offers its products can be a predictor of the effects of innovative activities (Raymond et al, 2008). Strengths and weaknesses of competitors, demands raised by consumers, legal regulations, as well as ecological, health and other standards, motivate enterprises to develop products taking into account the situation in a particular market.
Enterprises often find themselves having to modify their products sold on the international market, not only to achieve outstanding business performance and competitive advantage, but also to enter the market in the first place and to remain in it. Accordingly, the market range can have an impact on the effects of innovative activities. It is to be expected that the more present an enterprise is in the international market, the more oriented its innovation activities are towards improving product quality, ecological and health aspects, as well as towards complying with legal standards and various regulations (Meyer, 2006).

**2.4.4 Process Innovations**

Process innovation embraces quality function deployment and business process reengineering (Cumming, 2008). It is a type of innovation, which is not easy, but its purpose is now well understood. An efficient supplier who keeps working on productivity gains can expect, over time, to develop products that offer the same performance at a lower cost. Such cost reductions may, or may not, be passed on to customers in the form of lower prices. Process innovation is important in both the supply of the core product as well as in the support part of any offer. Both components of an offer require quality standards to be met and maintained.

In the case of services, which by their very nature rely on personal interactions to achieve results, the management of process innovation is a particularly challenging activity (John and Storey, 2008). Implementing and developing the innovation process requires energy to overcome the resistance to change. Therefore, it is essential that visionary and committed leadership provide the energy to overcome this resistance.
Leaders in an innovative role must be competent and knowledgeable about their work, and must also excel at inspiring employees (Higgins, 2005). Kakabadse and Kakabadse's (2008) studies revealed that the best leaders were those who were with the organization in a senior position for a considerable number of years and were predominately outwardly looking in nature. This factor is important for organizations with scarce management resources. Moreover, existing managers in organizations are less likely to spend time benchmarking other organizations in regard to leadership and innovation (Raymond et al., 2008).

Innovations that are radical, inventive, and early have some characteristics in common. They typically require more planning and effort, and involve higher cost and risk of failure. But they also frequently offer greater rewards and performance improvement if they succeed. The cultures of some companies are much more supportive of such innovations than are the cultures of others. A strategy that favors the development and introduction of innovations with these characteristics might be called proactive (Calantone et al., 2005). According to Porter, (2000), companies with a reactive innovation strategy aim to hit many singles. These are easier to achieve than home runs, but each one by itself does not move a team as far.

As originally conceived of, the marketing concept holds that all company activities must be organized around the primary goal of satisfying customers’ needs. Organizational structures and procedures reflect a market orientation, and all personnel are expected to be truly customer focused.
Market oriented firms are also recognized to pay a great deal of attention to customer research prior to new products being developed and produced (Damanpour, 2006). The idea of pushing products at customers is alien to the market oriented firm. Rather, the prime goal of the organization is to tap into customers’ needs so well that new products generate their own source of marketing momentum.

As indicated above, a succession of incremental, imitative, late innovations can have a very dramatic cumulative effect. However, this strategy appears less dynamic than that of the proactive innovator; neither is always and automatically better. The reactive innovation strategy requires more emphasis on process than product innovation. Because innovations of this type are easier to achieve, reward systems need to emphasize results. Results need to be viewed in terms of commercial success.

The culture of reactive innovators tends to be less supportive of creative genius and more congenial to those who progress systematically in a logical fashion (Prahalad and Hamel, 2004). In some ways, reactive innovators need to devote more time and attention to their competitors than do proactive innovators. Because the reactive innovator emphasizes adoption of the inventions of others, there is clearly a need to stay current on what inventions are being introduced, how they are being received, and what factors determine the most opportune time for a late mover to introduce its innovation. Further, imitative innovations require not just awareness but also a detailed understanding of the product or service being imitated (Fulmer, 2002).
Innovation is widely reported to be a determinant of organizations performance. Several studies (Clarke et al., 2000) have concluded that innovative organizations are more profitable than their non innovative counterparts, perhaps due to benefits derived from development of products, processes and other aspects of organizations operations. Specifically Brissimis and Delis (2005) posit that organization’s low performance is due to the fact that, rather than maximizing profits, they respond to a social mandate. This does not give room for technological or innovative advancements thus low or no profits.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter considers the logic behind the methods used in the context of the research study and explains why a particular method or technique was used so that research results were capable of being evaluated. It comprises of the research design, the data collection methods and the data processing and data analysis techniques which assisted in considering.

3.2 Research Design

The research design for the study was a case study. A case study is effective when an empirical study entails the detailed and intensive analysis of a single case which allows for in-depth exploration of issues in a phenomenon. The design was an exploratory research since the study involved clarifying and defining the nature of the problem.

This research design applied used qualitative research methods. The intention was to evaluate the application of value innovation as the basis for the blue ocean strategy at Safaricom Limited.

3.3 Data Collection

The data collection tool that was used for the study was an interview guide to obtain data from primary sources. On the other hand, data from secondary sources was collected by conducting document review and an analysis of the company’s progress on the execution of blue ocean strategy using the application of value innovation as the basis. The interview guide was a combination of both open and closed ended questions.
The study was conducted in Safaricom Kenya Limited and was specifically conducted in the company’s Headquarter in Westlands, due to its expansive size and location, hence making it cost and time effective. The study targeted all the Safaricom top managers located at the Headquarter in Westlands. According to the Safaricom Report (2012), the Headquarter in Westlands has 24 senior management and these thus were the study’s key respondents.

3.4 Data Analysis

Newton and Jeonghun (2010) defined data analysis as systematically looking for patterns in the data collected and formulating ideas that account for those patterns. Data analysis answered research questions and assisted in determining the trends and relationships among variables.

Content analysis technique was used to analyze the data. Findings which emerged from the analysis were used to compile the report. Content analysis is defined as a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same approach to related trends.
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The results are presented on the application of value innovation as the basis for blue ocean strategy at Safaricom Limited. The data was gathered exclusively from interview guide as the research instrument. The interview guide was designed in line with the objectives of the study.

4.2 Application of Value Innovation as the Basis for Blue Ocean Strategy at Safaricom Limited

4.2.1 Steps involved During Strategy Development and Execution

The study aimed at investigating the steps involved during strategy development. According to the interviewees, the process of strategy development was stylized by the Safaricom Limited management into a sequence of stages. For new product development it included venture management, new product committee and matrix management. In the venture management approach, a mini business is in effect created within the firm with its own staff, budget and clearly defined objectives. Venture management is seen as providing the necessary degree of flexibility allowing managers scope for quick response to changing conditions. At the first stage in strategy development process an idea is usually conceptualized, with major variations depending on the strategy to be developed.
Again at this first stage in the process, management is concerned with generating new ideas. At all subsequent stages, the number of ideas is gradually reduced as a series of checks and balances are made on the potentiality of the strategy to be developed. The new product development committee then brings together specialists from different functions within the organization on a regular basis to plan on how to adopt and implement the strategy. This may be in terms of products and control its development, but unlike the new product department, managers have other line responsibilities in their respective functions. The respondents stressed that the new product development cycle is usually seen as one of gradual risk reduction, where each stage is seen as reducing the chance of strategy failure.

The matrix management are then given the mandate to implement the strategy and ensure its success. According to the respondents the matrix management is an organizational form deliberately designed to give Safaricom Limited managers responsibilities for different aspects of the same project. It was stressed that new product development puts a particular strain on the company because the contribution of each of the individual department is likely to evolve its structure and orientation to perform its own task effectively and ensure effective strategy development.

4.2.2 New Solutions in it’s Operations

It was found that indeed Safaricom Limited applied new solutions in it’s operations so as to meet the customer’s needs. In support of their response interviewees indicated that Safaricom Limited offered unparallel quality service and increased their coverage in their niche which was their main focus.
According to the response, Safaricom Limited has taken into account the customer segments in the telecommunications market and have relied on their understanding to provide for the unique clientele in order to succeed. Meeting the needs of its customers was also of utmost importance to Safaricom Limited, which was echoed in their assertion that stated that their service focus was on their customer. Competition includes all the actual and potential rival offerings and substitutes that a buyer might consider. In this case, Safaricom Limited take into consideration companies producing substitute products and are aware of their position relative to market share competition by ensuring fast hand customer satisfaction.

4.2.3 Benefits of Applying the New Solution

On the reasons behind Safaricom Limited applying new solutions in its operations to meet the customer’s needs, management pointed out that like any other company Safaricom Limited is faced with the daunting task of having to face it’s competitors. This has led to the application of new solutions hence the company has emerged as Kenya's largest mobile telecommunications network service provider.

The management stressed that with over 10 million subscribers, Safaricom Limited has clearly taken the lead in the market share at 78%. Safaricom’s competitors are: Airtel Kenya that has 10.4% market share, Essar with 6.4% and Telkom Kenya, which has 5.2% of the market share.

It immerged that Safaricom Limited has invested in understanding the market as well as their competitor’s strengths and weaknesses which has assisted in making strategic decisions and gaining competitive advantage.
4.2.4 Differentiation of Safaricom Limited from Competitors

The study aimed at investigating respondent’s opinion on what differentiates Safaricom Limited from its competitors. From the respondents’ views, Safaricom Limited has in this respect incorporated a broad range of promotional activities in its marketing programs. These have been instrumental in enhancing not only its brand visibility in the mobile telephone market place, but also its market leadership. Such new products have generated considerable business gains, especially in relation to internet data, money transfer and money banking.

Respondents indicated that Safaricom’s Limited fundamental principle underlying most of the products designed has been placed to reach a specific type of audience. They form a homogenous group, that exhibit similar needs or demographic, social, psychological or behavioural characteristics that enable them to be targeted with a distinct marketing mix by the company. The product uniqueness was investigated to determine how outstanding Safaricom products are. It was important because it revealed the distinctiveness of the services offered.

By developing a distinctive name, packaging and design, a brand was created. Safaricom Limited has done this by developing an individual identity, which has developed customer association with the brand: prestige, and/or economy and hence the purchase decision unlike the other service providers.
The brand was created by means of augmentation of core products, whose distinctive values distinguish it from the competition. The findings in here show that Safaricom Limited products are so differentiated that the brands therefore speak louder than any other variable. Therefore, the study revealed that the product package offered by Safaricom Limited is highly differentiated from those of competitors.

The firm’s broad distribution channels are also able to reach a wide segment of the Kenyan population. Safaricom Limited has above 350 dealers that are exclusive to the firm and a further 10,000 sub-dealers who only sell Safaricom products. Respondents also indicated that Safaricom also has a lot to do with its ability to recognize the diverse nature of its customer base and provide different products to different market segments.

In particular, the firm’s ability to continually introduce innovative products that customers seek such as per second billing, low denomination airtime vouchers and free customer service has helped maintain customer loyalty. At the top, Safaricom is managed by a team of executives that is largely unchanged since 2000. This continuity has helped create value for the company. At the same time, Vodafone’s hands off approach as a major shareholder has enabled CEO and the management to focus on running the business unlike their competitors.

Finally, Safaricom benefits from a strong brand identity, a loyal customer following and a strong local identification. Despite being 40% owned by the global mobile firm Vodafone.
4.2.5 Value Proposition for Customers

On ways that Safaricom Limited has created value proposition for its customers, the interviewees pointed out that Safaricom has clearly defined its product concept as an objective in customer’s terms in order to deliver expected value. The management pointed out that creating value proposition focused on the producing new products and modifying existing ones to target the customer in the mobile service market share.

Sales promotion was cited as the second element in the mix and according to the respondents it constitutes a range of tactical marketing techniques designed within a strategic marketing framework to add value to a product in order to achieve specific sales and marketing objective. Sales promotion targeted consumers with the aim of pulling sales through a channel of distribution, pushing products through the channel, or a sometimes they applied a combination of both. The most common consumer sales promotion techniques used by Safaricom included special offers or bulk purchase offers which ensured that the company created value proposition for its customers.

4.2.6 Basis of Strategy Development and Execution

On strategy development and execution, the study found that there was a strategic review which focused across all areas within a structured engagement that integrated company assessment, targeted customer interviews and participatory working sessions into phasing an appropriate strategy for the organization. As part of a strategic review, respondents indicated that there was an assessment of the enterprise for strategy capabilities, evaluation of the infrastructure and systems for web services for mobile integration review other mobile initiatives and how they roll into a cohesive mobile strategy.
The findings are incorporated into a final analysis and a set of recommendations that are delivered in an executive summary report, which Safaricom uses to advance its goals and objectives. Respondents indicated that strategy development and execution revolved on; vision and goals set, executive leadership, governance and stakeholder involvement, partnership development, assessment plans and evaluation program, marketing and adoption planning. One of Safaricom’s clear advantages over competitors is its ability to offer products that are designed to meet the needs of its different customers.

### 4.2.7 Value Innovation

There are four types of value innovations applied by Safaricom Limited in its operations which include market innovation. Safaricom has re-examined their marketing strategies by being more customers focused. New product development provides an avenue for fulfilling the diverse needs of the market place. Safaricom has new product development for a wide range of products not previously offered by the marketer. This also includes activities comprising of conceptualization, concept testing and approval, research and development, prototype testing, economic and market research and decision-making with regard to positioning, pricing, branding, distribution and promotion. The respondents indicated that Safaricom employed environmental analysis and response to change, the firms employed aggressive anti-competitors marketing campaigns. Aggressive anti-competitors marketing campaigns contributed to the firm’s profitability more.
Under the product innovations, the respondents indicated that product development was important in both the supply of the core product as well as in the support part of any offer and they also agreed. The strength of a brand’s position in Safaricom in the marketplace was built on six elements: brand domain, brand heritage, brand values, brand assets, brand personality and brand reflection. The first of these, brand domain, corresponds to the choice of target market where the brand competes; the other five elements provide avenues for creating a clear differential advantage with these target consumers.

By brand domain Safaricom targets markets where it competes in the marketplace which in turn describes the nature of competition in that particular market. Brand heritage is the background to the brand and its culture, as well as how it has achieved success over its lifecycle. This best indicates the size of the market the brand commands. Brand values are the core values and characteristics of the brand as perceived by the customers.

Brand assets are what makes the brand distinctive from other brands and include a set of unique features that differentiate it from competing brands. Brand personality is the character of the brand described in terms of other entities, such as people, animals or objects. Brand reflection is how the brand relates to self identity and how the customer perceives him/herself as a result of buying or using the brand. Brand managers can form an accurate portrait of how brands are positioned in the marketplace by analyzing each of the elements a fore mentioned.
According to the respondents, each process undertaken in the development of a product was made possible by use of modern technology hence technology innovations. Thus continuous improvement has been taken in consideration in the information technology department which translates the voice of the customer into design parameters and measure results in terms of costs and quality.

According to the respondents, technology was viewed as potentially capable of helping achieve innovative strategy. The high rate at which organizations are buying mobile telephones, computer hardware and software as well as using the internet for information and communication is the evidence for the increasing awareness of information and communication technology in the Kenyan market. The business benefits of using technology include efficiency and attainment of increased returns. With the use of technology, Safaricom has used the cross-selling strategies of selling new innovations to their existing customer base.

It was reported that Safaricom’s adoption of technology changes, from improving efficiency and also improving the service quality in servicing the customers. Such changing strategy demonstrates the situation where Safaricom competes to own the potential customers. It was deduced that use of technology innovation promoted a friendly and helpful staff hence customer satisfaction and that the innovations ensured that the services given to customers were of high quality.
Under the process innovations, the interviewees stated that Safaricom forms processes that favour the adoption and implementation of new service processes which were proper for the generation of new products. Whereas Safaricom used invention is the creation of new products or processes through the development of new knowledge, innovation is the initial commercialization of invention by producing and selling a new product, service or process. Innovation precisely means turning ideas into profits. Incremental innovation refers to simple changes or adjustments in existing products, services or processes that add value to the customer.

Thus a major driver of incremental innovation in Safaricom comes from programs aimed at continuous improvement, cost reduction and quality management. Continuous improvement is the process of relentlessly trying to find ways to enhance and improve a company's products and processes from design through assembly, sales and service. This approach, or philosophy, seeks to always find slight improvements or refinements in every aspect of what Safaricom does, so that it will lower costs, improve quality and speed or more rapid response to customer needs.

4.2.8 Innovative Range of Products

On how Safaricom ensures it has innovative range of products, interviewees pointed out that the characteristics of an innovation was perceived by the members of a social system which was determined by its rate of adoption. The interviewees stressed that an innovation's rate of adoption are: relative advantage, compatibility, complexity, trial ability, and observability.
They explained that though the degree of relative advantage may be measured in economic terms, social prestige, convenience and satisfaction were also important factors of product innovation. What matters was whether an individual perceives the innovation as advantageous, the greater the perceived relative advantage of an innovation, the more rapid its rate of adoption was. Compatibility was mentioned as the degree to which an innovation was perceived as being consistent with the existing values, past experiences, and needs of potential adopters. An idea that is incompatible with the values and norms of a social system was not adopted as rapidly as an innovation that was compatible. The adoption of an incompatible innovation often required the prior adoption of a new value system, which was a relatively slow process.

Complexity was defined as the degree to which an innovation was perceived as difficult to understand and use. Some innovations were readily understood by most members of a social system; while others were more complicated and were adopted slowly. New ideas that were simpler to understand were adopted more rapidly than innovations that required the adopter to develop new skills and understanding.

Trial ability was explained as the degree to which an innovation was experimented with on a limited basis. New ideas that were tried on an instalment plan were generally adopted faster than innovations that were not divisible. Observability was pointed out as the degree to which the results of an innovation were visible to others. The easier it was for individuals to see the results of an innovation, the more likely they adopted it. This way Safaricom’s innovation of products makes the company relevant in the mobile telephone service market.
4.2.9 Safaricom Limited products

On the range of innovative products by Safaricom, interviewees indicated that Safaricom service had proved to be wildly popular with millions of Kenyans. Safaricom management boasts to have pioneered the use of M-PESA, not only for person to person money transfers, but also for bill payment and eventually ATM withdrawals.

M-PESA has also been a smart strategic move for the company as it has helped satisfy a previously unmet consumer need and so kept customers loyal to the firm. The company also provided bonga loyalty points. In January 2007, Safaricom created a customer rewards program known as Bonga Points. With this, customers earn points every time they use their phone to make a call or send a message. For every Ksh 10 spent, the subscriber earns at least one bonga point. Bonga points are accumulated by users and are redeemable for rewards in the form of free minutes or SMS.

Prepaid products have also been introduced to Safaricom provides its prepaid customers with a variety of services that are free of charge. Prepaid customers are entitled to use offerings such as third party top up which allows Safaricom subscribers to remotely credit an airtime voucher into any prepaid subscriber’s mobile number via SMS. Prepaid customers are also able to top-up on airtime through their bank accounts from anywhere within the firm’s mobile network. These customers are also able to access Sambaza which allows subscribers to share their airtime credit balance with other prepaid customers via SMS.
“Kama Kawaida” was another product which Safaricom has eliminated expensive roaming charges for calls made outside Kenya but within East Africa. In particular, Safaricom has partnered with MTN in Uganda and Rwanda and Vodacom in Tanzania so that both prepaid and postpaid customers can call at their home country rates while traveling in the region.

Another product was postpaid which is intended for wealthier individuals and members of the corporate elite. As such, the firm offers these customers some bundled products that, in many ways, resemble the kinds of mobile telephone packages seen in Europe and the United States. These offerings include programs like advantage hybrid, which allows customers to control their postpaid usage by specifying a limit on their accounts (over which they can top-up with airtime vouchers to stay connected). These contracts are usually offered with handsets included. Safaricom also offers Blackberry services in Kenya as well as other corporate data functions for business users.

4.2.10 Strategies undertaken by Safaricom Limited

On some of the strategies that Safaricom Limited has undertaken, the respondents indicated that the main channel is to provide the basic service of enabling consumers to access a wide assortment of products under one roof. This has been witnessed by Safaricom developing complimentary products and services in the name of M-pesa, air time and mobile banking. As a result, consumers have the convenience of viewing and/or testing and buying a product at a single retail outlet.
Given Safaricom’s remarkable growth, increasing number of product offerings, and expanded network, the firm has found outside financing necessary to support its growing operations and efforts to keep firm infrastructure on the cutting edge of mobile communications technology. In 2001, Safaricom was looking to upgrade and modernize its existing technological infrastructure and the firm came to a sourcing agreement with Siemens in Europe to purchase its GSM equipment for importation to Kenya.

In June 2001, Safaricom issued a five year Ksh 4 billion ($53 million) bond representing what was, at the time, the largest long-dated, non-governmental note in the history of Kenyan capital markets. In order to further bolster its handsets and technology infrastructure, the firm also took out an additional €25 million loan at the same time, with Citibank providing book runner services and Standard Chartered functioning as the deal’s arrangers.

Safaricom continued to finance its growth with another round of bank loans in August 2002, when it took out a five year syndicated loan of Ksh 2.5 billion ($33 million) through its relationship with Citibank, Standard Chartered and Barclays. Most recently, Safaricom returned to the market in February 2006 when it closed a Ksh 12 billion ($166 million) refinancing facility with Barclays, Citigroup, Stanbic and Standard Chartered leading the deal arrangement.
Overall, Safaricom has been the largest and most important user of capital in Kenya’s syndicated loan and bond market since it entered the market in 2001. It generates more cash than any other institution in Kenya (with the exception of the government). The firm uses an Oracle based cash management system and has devised a process whereby local banks bid to hold the Ksh 70-80 million ($1 million) of cash it generates on a daily basis. The firm’s continued need for capital has gone hand in hand with its continued acquisition of subscribers and firm growth and Safaricom remains a preferred business partner in Kenya.

4.2.11 Existing and Future Customers

On how Safaricom focused on existing and future customers, respondents indicated that customer satisfaction goes hand in hand with service quality. With better service quality customers expected needs are met and exceeded hence more satisfaction. According to the respondents some customer’s satisfaction would also be determined by price. If the price was fair to them, then it would constitute to some level of satisfaction and hence retention and attracting more customers. Managers pointed out that product features do determine customers’ satisfaction.

If the products are designed well enough to meet and even exceed their needs then they are likely to be satisfied with the products. Perceptions of equity and fairness by Safaricom influenced customer satisfaction in the sense that customer service was good which helps to create a positive image in the mind of the customer. Other consumers are a big influence of customer satisfaction because they would share past experiences and attract more customers to Safaricom. Positive experiences by other consumers have a big
impact on customer satisfaction since new customers will be expecting positive experiences as well and possibly even satisfaction.

4.2.12 Reach Out to Customers

The study aimed at investigating how Safaricom reached out to those who have taken the decision not to become customers. According to the interviewees, customers are surrounded and constantly bombarded by communications stimuli related with new products, these stimuli reach the customer as a result of organizations implementing a range of promotional activities via advertising, sales promotion, public relations, selling and direct marketing, delivered through a variety of different channels and media. Alongside such activity, other elements of the marketing mix are also communicating to the consumer. These include aspects of the product, pricing, distribution and the quality of service that consumers experience.

The Safaricom management pointed out that consumers face many challenges while utilizing a service. The challenges include; service failures, pricing which they feel is unfair, waiting to be served which may take unreasonable time, core service failure for example service mistakes or billing errors, service encounter failures like the customer service being impolite, unresponsive or unknowledgeable.

The customer might be uncertain about the service provider’s offered price compared to the market. Consequently, information asymmetry occurs because the service providers possess information on service quality and price level that the customer does not have.
To overcome this information asymmetry, Safaricom sends signals such as brand names and best rate guarantee. Safaricom has in the recent times used a number of strategies in the face of rising price competition. Consequently, it has introduced measures aimed at price reductions in its short messaging service, as well a reduction in the calling rates. These measures are intended to boost or translate into broader subscriber base and customer retention. As the competition in the mobile telephone sector continues to be more price sensitive, Safaricom stands out as the only organization that depends on other marketing mix variables to sustain its performance. And, because price based competition relies majorly on economies of scale, only mobile service providers with broad subscriber base like Safaricom can stand the test.

The Safaricom’s management indicated that subscriber base has grown over time, from 865,000 in 2003 to nearly 15 million by March 2013 and the firm’s market share has also been gradually increasing, from 56% in 2001 to 80% in 2012. Overall, key factors contributing to the company’s success in Kenya ranges from their products which include superior coverage and network quality, wider distribution channels, a good understanding of customer needs, a strong management team and a strong brand. As things currently stand, Safaricom’s network reaches approximately 80% of Kenya, representing coverage that is significantly higher than its nearest competitor.

This allows the firm to reach a large percentage of Kenya’s rural population and take advantage of the dispersed family structures that are common in the country. As a result of the company’s capital investments, Safaricom’s network is of a high quality and has less congestion and fewer dropped calls than other providers.
4.2.13 Strategies Improvement

On how Safaricom is continuously improving on its strategies, respondents indicated that they focus on knowledge of economy. Investments in intellectual assets are considered to be key strategic elements to maintain its growth, profitability and competitiveness. The respondents indicated that Safaricom was operating in increasingly competitive market and innovation was often a condition for simple survival. The capability to innovate was ever more viewed as the single most vital factor in developing and supporting competitive advantage. Innovation in the telecommunication sector aims at developing a change adept organization that anticipates, creates and responds effectively to change in the external and internal environments to increase profit potential.

Some of the forces of change that have greatly influenced the telecommunication industry in Kenya include intense competition, regulation and technological advancement. Safaricom being in a dynamic and global competitive environment, innovation has becoming more pertinent, mainly due to three major trends: concentrated international competition, disjointed and challenging markets, and assorted and swiftly changing technologies.

Safaricom has successfully developed products and services that cater to its diverse customer base and that base can be roughly divided into two groups: the 99% of customers who are prepaid users and the remaining 1% of postpaid subscribers. The majority of Safaricom’s customers are prepaid subscribers who have a modest disposable income and are in the habit of buying relatively small airtime vouchers.
The firm’s 1% of postpaid subscribers come from corporate, banking and small to medium size enterprise segments that generate higher annual revenue per user (ARPU) numbers than prepaid customers. In fact, Safaricom’s remaining 1% of subscribers make up about 10% of the company’s total revenues.

Safaricom’s operations were upgraded to GSM, the most popular standard for mobile phones used by 82% of the global mobile market. The firm currently operates a 900 renewable GSM license and an 1800 GSM license that is valid through 2014. Safaricom has also received a license to install and operate an International Gateway Systems (IGS), which is a switching and routing system that improves the transmission and reception of voice and text communications. Most recently, Safaricom has contributed to the continued development of Kenya’s technological infrastructure by purchasing the country’s first third generation (3G) license in October 2007 for $25 million. This has allowed enhanced multimedia content at speeds much faster than previously possible in Kenya.

4.3 Discussion

4.3.1 Comparison with Theories

The findings of Hammer (2000), is that disruptive innovations offer 'good enough' performance along traditional dimensions and new benefits such as simplicity, convenience or low prices. They appeal to overshoot customers or 'non-consumers' looking for something different and often utilize 'low cost' or start small business models. This was similar with the findings of this study in that the mobile service providers adopted strategies such as pricing policy.
This strategy consists of reducing the price of services or goods for people who are regular clients of the service provider. This gives clients an incentive to come back to the company and continue purchasing their products and services. The findings also confirm why Safaricom dominates the market as supported by Contingency theory in that Blue Ocean strategy has been treated by many scholars as a good strategy for companies to create uncontested market space in which competition is irrelevant. Brown (2007) proves that Blue Ocean strategy is widely used by successful companies.

The findings correlate with the research findings at Safaricom Limited in that it continuously improves its products’ worth (value innovation) which is what leads to the creation of new market niches (blue ocean strategy) in order to meet the customer’s needs. The study findings show that Safaricom Limited offered unparallel quality service and increasing their coverage in their area of coverage which was their main focus. This was an idea which links with the theory under a study by Nonaka and Takeuchi (2005), which stresses that in order to cope with these various environments, organizations create specialized subunits with differing structural features. On the reasons behind Safaricom applying new solutions in its operations to meet the customer’s needs the study found like any other company, Safaricom is faced with the daunting task of having to face its competitors and this has lead to the application of applying the new solutions which has lead to their current performance hence have emerge as Kenya's largest mobile telecommunications network service provider. The findings confirm the use of System Theory for it states that organizations are viewed as open systems, continually interacting with their environment. They are in a state of dynamic equilibrium as they adapt to environmental changes advancing in innovation (Damanpour, 2006).
There was a strategic review which focused across all the mobile telephone industries’ strategy effective practice areas within a structured engagement that integrated company assessment, targeted customer interviews and participatory working sessions into phasing an appropriate strategy for the organization. Safaricom’s main channel was to provide the basic service of enabling consumers to access a wide assortment of products under one roof. This findings were in line with a study done by Damanpour (2006) in that market oriented firms are also recognized to pay a great deal of attention to customer research prior to new products being developed and produced.

The idea of pushing products at customers is alien to the market oriented firm. Rather, the prime goal of the organization is to tap into customers’ needs so well that new products generate their own source of marketing momentum. The findings relate with Higgins, (2005) in the organization theory where Higgins states that the postmodernism generate healthy skepticism toward any dominant theory and challenge others to try something completely different, that is theorizing. It is argued that the best theories are those that are found or invented to match innovation experience or organization. In strategy and finance for example, organization theory is applied to improve value of the company as those who monitor and control performance, need to understand how to achieve results by structuring activities and designing organizations processes (Higgins, 2005).
4.3.2 Comparison with Other Studies

The findings show that Safaricom Limited continuously improves on its strategies by focusing on knowledge economy, investments in intellectual assets which are considered more and more to be key strategic elements to maintain Safaricom growth, profitability and competitiveness. Safaricom is operating in an increasingly competitive market and innovation is often a condition for simple survival. This was an idea of Hart (2006) in that improved and radically changed products are regarded as particularly important for long term business growth. The power of product innovation in helping companies retain and grow competitive position is indisputable. Products have to be updated and completely renewed for retaining strong market presence.

The findings from Mwarangu (2009) on the innovation strategies in the telecommunication industry also correlate with the research findings at Safaricom Limited. This is because the company continuously improves its products’ worth (value innovation) which is what leads to the creation of new market niches (blue ocean strategy) to meet the customer’s needs. The findings of this study also connect with those of Odhiambo (2008) on the innovation strategies at Standard Chartered Bank.
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter provides the summary of the findings from chapter four and also it gives the conclusions and recommendations of the study based on the objective of the study. The objective of this study was to find out if the application of value innovation is the basis for blue ocean strategy at Safaricom Limited.

5.2 Summary
The study found that the process of strategy development was stylized by Safaricom management into a sequence of stages. It was found that indeed Safaricom applied new solutions in its operations so as to meet the customer’s needs. Safaricom Limited offered unparallel quality service and increasing their coverage in their area of coverage which was their main focus. On the reasons behind Safaricom applying new solutions in its operations to meet the customer’s needs the study found like any other company, Safaricom is faced with the daunting task of having to face its competitors and this has lead to the application of applying the new solutions which has lead to their current performance hence have emerge as Kenya's largest mobile telecommunications network service provider.
The study also found that Safaricom has in this respect incorporated abroad range of promotional activities in its marketing programs. Safaricom management has clearly defined their product concept as an objective in customer’s terms in order to deliver expected value.

There was a strategic review which focused across all of the mobile telephone strategy effective practice areas within a structured engagement that integrated company assessment, targeted customer interviews and participatory working sessions into phasing an appropriate strategy for the organization. Safaricom’s main channel was to provide the basic service of enabling consumers to access a wide assortment of products under one roof.

The study finally found that Safaricom Limited focused on existing and future customers for satisfaction which goes hand in hand with service quality. Customers are surrounded and constantly bombarded by communications stimuli related with new products, these stimuli reach the customer. Safaricom Limited continuously improves on its strategies by focusing on knowledge economy, investments in intellectual assets which are considered more and more to be key strategic elements to maintain Safaricom growth, profitability and competitiveness. Safaricom was operating in increasingly competitive market and innovation was often a condition for simple survival.
5.3 Conclusion

The study concludes that adoption of innovation strategies affected profitability of Safaricom. Further, Safaricom employed market innovations such as environmental analysis and response to change and aggressive anti competitors marketing campaigns that greatly affected their performance. Aggressive anti-competitors marketing campaigns contributed to the firm’s profitability.

Secondly, the study concludes that product innovations such as product replacement and product repositioning contributed to the firm’s market advantage. Product development was important in both the supply of the core product as well as in the support part of any offer.

In addition, the study concludes that process innovation strategies such as reduction of costs contributed to the firm’s innovation strategy. Use of technology innovation promoted an efficient innovative system hence customer satisfaction. Innovations ensured that the services given to customers were of high quality.

5.4 Recommendations

The study recommends that the regulator in the telecommunication sector should create an enabling environment that will enhance innovations in the telecommunication sector so that they realize the full benefits of innovation strategies. The study also recommends that for all the firms in the telecommunication sector to realize higher performance, increase number of customers, for their business to grow further and also for them to invest more, they should embrace the adoption of market innovation strategies.
The study also recommends that the companies should also strive to ensure product range extension, product replacement, product improvement, product repositioning and new product introduction to enable the companies be more productive, grow faster, invest more and also to earn more performance.

The study further recommends that firms in the telecommunication sector should ensure new products introduction, reduction of costs, improved innovation process and conformance to regulations are used to influence performance of the firms under study. This will help the tap into customers’ needs so well that new products generate their own source of marketing momentum.

The study finally also recommends that the firms also should ensure that they adapt the new technology in order to cope with the fast changing technology. Technology innovation encourages ease of flow of information and fast delivery to the intended persons. For efficient adoption of technology innovation strategies, there should be reliable infrastructure, enough financial resources.

5.5 Limitations of the Study

The investigative nature of the study sparked misplaced suspicion. Respondents feared that the study intended to implicate individuals in a negative way. To this end, this suspicion offered resistance and lack of cooperation. The researcher however eliminated this paranoia by clarifying the objectives of the study.
There was reluctance by some of the respondents to be interviewed and others even declined the interview. This thus limited the number of respondents involved in the study although the researcher geared up efforts and approaches to them explaining the potential benefits of the study.

5.6 Suggestions for Further Research

The study has explored the application of value innovation as the basis for blue ocean strategy at Safaricom Limited. The mobile telephone service sector in Kenya however is comprised of various other mobile service providers who differ in their way of management and have different settings all together.

This warrants the need for another study which would ensure generalization of the study findings for all the mobile telephone service providers in Kenya and hence pave way for new policies. The study therefore recommends another study with an aim of investigating the application of value innovation as the basis for blue ocean strategy by mobile telephone service providers in Kenya. Further, a study should also be carried out to investigate the factors influencing application of value innovation as the basis for blue ocean strategy by firms in Kenya.
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APPENDICES

Appendix 1: Interview Guide

INTERVIEW GUIDE ON APPLICATION OF VALUE INNOVATION AS THE BASIS FOR BLUE OCEAN STRATEGY

Dear participant,

I, Gertrude Ngaruiya; a student at University of Nairobi pursuing Master of Business Administration with a focus in Strategic Management, kindly requests you to participate in this study as entitled above.

I kindly request you to respond to the following questions as honestly as possible. All the information collected for this study is purely for academic and research purposes and will be treated with privacy and confidentiality. Your responses and those of other individuals like you will be will be combined in to one generalized report and will not make reference to your name(s). Note that you are free to participate only if you wish. Thank you for your cooperation.

LOCATORS

Interviewer’s name: _______________________________________________________

Interviewee’s name: (Optional) ______________________________________________

Date: Day_____/Month_______/2013

1. Gender ......................................................................................

2. Age ......................................................................................

3. Level of education.................................................................

4. Number of years worked in the Company ..............................

5. Department .............................................................................

6. Job title .................................................................................
7. What are the steps involved during strategy development?

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8. Would you say that Safaricom applies new solutions in its operations so as to meet the customers’ needs? If so how?

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9. What are the benefits of applying the new solution in number 8?

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10. In your opinion, what would you say differentiates Safaricom Limited from its competitors?

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11. In what ways has Safaricom Limited created value proposition for its customers?

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12. What is the basis of strategy development and execution?

13. How does the market, the products, the technology and the processes feature or fit in your strategy?

Market

Product

Technology

Processes
14. How does Safaricom ensure innovative range of products?

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If so, which products are these?

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15. What are some of the strategies that Safaricom has undertaken?

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16. How does Safaricom focus on existing and future customers?

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17. How does Safaricom reach out to customers who have taken the decision not to become customers?

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18. How does Safaricom continually improve on its strategies?

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