STRATEGIES ADOPTED BY OIL MARKETING FIRMS IN KENYA TO REMAIN COMPETITIVE

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DECLARATION

This research project is my original work and has not been presented for the Award of a degree or diploma in this or any other university.

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

Paul K Muema

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

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DEDICATION

I dedicate this project to my wife, children

And the entire family.

ABSTRACT

A competitive strategy aims at gaining and maintaining competitive advantage over business rivals. For a firm to formulate appropriate strategies that will enable it respond effectively to environmental competitive pressures, it is prudent that the firm understands the underlying sources of the competitive pressure in its industry. Following the liberalization of the industry in 1994, the petroleum market in Kenya experienced fundamental environmental changes that resulted in enormous increase in competition forces. In the wake of the diminishing profits resulting from increased competition in the industry, petroleum firms have had to employ various strategies to seek competitive advantages in order to remain operational and competitive. The purpose of this study was to determine the strategies adopted by oil marketing firms in Kenya to remain competitive. The study employed a descriptive survey research design. The population of this study was the oil-marketing companies in Kenya. A questionnaire was used to collect data from 48 CEOs, business development managers and the marketing managers of oil marketing firms. The data obtained from the respondents was analyzed through descriptive data analyzing techniques by employing a social science software program. The study found that majority (54%) of the respondents indicated that there was a high practice of proper capacity utilization; storage facilities, blending and filling plants; 71% indicated that there was a high strategic location of storage, filling and loading facilities A significant number (84%) indicated that there was consistent product availability. A significant number (79%) of respondents also indicated that there was high use of high equipment and facility reliability. A significant number (76%) indicated that their oil firms used segmented markets as a method of competitive advantage. A significant number (75%) of the participants indicated that there was high investment in local network expansion by increasing number of stations. The study concluded that the strategies adopted by the oil firms included the cost leadership strategy, differentiation strategy, focus strategy and market expansion strategy. The researcher also concluded that cost leadership and focus strategies were the most widely used competitive strategies. The researcher also concluded that the cost leadership strategy, differentiation strategy, focus strategy and market expansion strategy were effective in enhancing the competitiveness of the oil firms. The researcher recommended that the firms should focus on adopting majority of cost leadership strategies to ensure that that their profit margin increases .The researcher also recommended that the government through the Energy Regulation Commission ensure that the players in the oil marketing business compete on a level ground by enforcing the energy act fully and getting rid of unscrupulous marketers.

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ABBREVIATIONS AND ACRONYMS

BP	British Petroleum
CEO	Chief Executive Officer
ERC	Energy Regulatory Commission
FO	Fuel Oil
KPC	Kenya Pipeline Company
KPRL	Kenya Petroleum Refinery Limited
NOCK	National Oil Corporation of Kenya
OTS	Open Tender System
RBT	The resource-based Theory
RBV	The resource-based view
KOT	Kipevu Oil Terminal
LOBP	Lube Oil Blending Plant
ONFR	Other Non-Fuel Retailing
SPSS	Statistical Package for Social Science
USA	United States of America

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations (Johnson Scholes & Whittington, 2008). Strategies are therefore the means by which companies aim to achieve their long-term objectives. A competitive strategy aims at gaining and maintaining competitive advantage over business rivals. It is therefore the actions that a firm does which enables it perform better compared to its rivals. Porter's (1980, 1985) proposed three different generic strategies by which an organisation could achieve competitive advantage namely: overall cost leadership, differentiation and customer focus. Companies have developed self-suiting strategies outside the three generic competitive strategies to enhance their competitiveness against their rivals. Increased penetration strategies, pricing strategies and market expansion strategies are some of the other strategies that firms adopt in order to enhance their competitive edge over their competitors.

There are several theoretical perspectives that provide an explanation of the competitiveness of firms. The resource based theory advocates that competitive advantage of a firm lies primarily in the application of a bundle of valuable tangible or intangible resources at the firm's disposal (Mwailu & Mercer, 1983). To transform a short-run competitive advantage into a sustained competitive advantage requires these resources, which are heterogeneous in nature and not perfectly mobile (Peteraf, 1993). If these conditions hold, the bundle of resources can sustain the firm's above average returns. Barney (1991) asserted that a firm has a competitive advantage when it is implementing a value creating strategy not simultaneously implemented by any current or potential competitors. When two or more firms compete within the same market, one firm possesses a competitive advantage over its rivals when it earns a persistently higher rate of profit (Grant, 1996). Competition exist when different organization seek commitments of time and energy from the same target markets and an organization faces competition when its success depends upon behaviour of other actors who are trying to fulfill similar customer needs. Porter (1979) noted that it is prudent for any firm to understand the underlying sources of competitive pressure in its industry in order to formulate appropriate strategies to respond. Firms often respond to such environmental changes through strategic responses.

The competitiveness in the petroleum industry has rose exponentially in the last two decades owing to various fundamental changes in the industry’s environment, prompting marketing firms in the industry to re-strategize in order to remain competitive. The liberalization of the industry in Kenya in 1994 allowed establishment of new market entrants as independent companies. These companies commonly referred by the industry as independents, established many retail service stations and mini depots spread all over the country. The individual investment of the independents was so little compared to those of already existing multinationals and other major oil marketing companies in Kenya, a factor that gave the independents a cost advantage. Through liberalization, independents were allowed direct importation of products thereby avoiding local sourcing from the established multinationals and this is another factor that gave them a cost advantage. Given that petroleum customers in Kenya are price sensitive, the independents have all along used pricing as a competitive tool a factor that has enhanced their customer base and market share growth at the expense of the major firms in the sector. The increasing competition caused depletion of the high profits the major oil marketing firms used to enjoy and consequently half of the Multinationals that existed before the liberalization have been forced out of the market in the last decade, including ExxonMobil, Shell &BP and Caltex/Chevron.

The field of petroleum industry in Kenya has been widely studied. Mwangi (2012) researched on Factors that influence relocation of Multinational Oil companies based in Kenya to other countries and found that major reasons that led to the exit was shrinking profit margins. Institute of Economic Affairs (2000) researched on the state of Petroleum Industry in Kenya since Liberalization. Kieyah (2011) carried out a study on the petroleum industry in Kenya while Deloitte (2013) researched on the oil and gas potential in East Africa. The area of the competitive strategies adopted by oil marketing firms in Kenya remain not researched in Kenya despite the fact that the petroleum industry has become very competitive as evidenced by the exit from the market by some multinationals. This study seek to fill this empirical gap by researching about the competitive strategies adopted by oil marketing firms in Kenya in order to remain competitive.

1.1.1 Concept of Strategy

Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations”. (Johnson Scholes &

Whittington, 2008). Strategies are therefore the means by which companies aim to achieve their long-term objectives. There is a variety of business strategies including geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, divestiture, liquidation, and joint ventures. Strategies are potential actions that require top management decisions and large amounts of the firm's resources. In addition, strategies affect an organization's prosperity, as they are future oriented typically for at least five years for long-term strategies and a year for short-term strategies. Strategies have multifunctional or multidivisional consequences and require consideration of both the external and internal factors facing the firm.

1.1.2 Competitive strategy

A competitive strategy aims at gaining and maintaining competitive advantage over business rivals. It is therefore the actions that a firm does which enables it perform better compared to its rivals. Porter's (1980, 1985) theory of competitive strategy in essence contains two elements: first, a scheme for describing firm's competitive strategies according to their market scope and second a theoretical proposition about the performance outcome of these strategies. Michael Porter proposed three different generic strategies by which an organisation could achieve competitive advantage namely: overall cost leadership, differentiation and customer focus.

A low-price strategy seeks to achieve a lower price than competitors whilst trying to maintain similar perceived product or service benefits to those offered by competitors. A differentiation strategy seeks to provide products or services that offer benefits that are different from those of competitors and that are widely valued by buyers while the focused differentiation strategy seeks to provide high-perceived product/service benefits justifying a substantial price premium, usually to a selected market segment (niche).

1.1.3 Petroleum industry in Kenya

The petroleum industry in Kenya began in 1903 during colonial times where petroleum products were imported in finished form. Illuminating kerosene was the main product and was initially imported in tins but gasoline was later introduced. The gasoline was also imported in tins and drums until Royal Dutch Shell established the first depot on the Mombasa Island at Shimanzi. The importation of finished petroleum product continued until 1963 when Royal Dutch Shell and British Petroleum Company BP set up the first crude oil refinery complex at Mombasa, which they named East African Oil Refineries Limited.

The petroleum industry in Kenya comprises the Ministry of Energy, the Energy Regulatory Commission (ERC), Kenya Pipeline Company (KPC), Kenya Petroleum Refineries Limited (KPRL) and Oil Marketing Companies. The Ministry of Energy provides the policy leadership, while the Energy Regulatory Commission provides regulatory stewardship. The KPC is a fully owned State Corporation whose overall objective is to provide efficient, reliable, safe and cost effective means of transporting petroleum products from Mombasa to the hinterland. It achieves this through pipeline network, storage and loading facilities for transportation, storage and distribution of petroleum products. KRPL is a limited company that runs a single skimming refinery in Mombasa. The government owns 50 per cent of the equity, while Essar Energy Overseas Limited owns the difference. Until the year 2013, much of petroleum product in Kenya were extractedfromimported crude oil through the refinery process at the KPRL plant while the rest was directly imported as refined products. The plant was closed in 2013 and subsequently all petroleum fuel product are imported in finished form ever since.

The Ministry of Energy through an Open Tender System (OTS) coordinates the importation of the refined petroleum fuel products where interested marketers bid to import on behalf of the rest. The OTS winner allocates refined product based on calculated cargo participation.

The petroleum industry in Kenya has been most active in downstream operations with little activity on upstream. There is nil hydrocarbon production in Kenya but this is due to change owing to the recent discovery of commercially viable hydrocarbon deposits in the northwest region of the county.

Oil exploration in Kenya began with BP and Shell 1950s with the first exploration well drilled in 1960.Over the past 50 years many other oil and gas companies have tried their luck onshore and offshore, including Exxon, Total, Chevron, Woodside and CNOOC (Deloitte, 2013). About half of the exploration wells drilled in the country prior to 2012 showed signs of hydrocarbons, but the quantities were not much enough for commercial viability. Tullow Oil farmed into six blocks in the Turkana Rift Basin in late 2010 (five in Kenya and one block in Ethiopia) and in March 2012, it announced an oil discovery in some of the blocks. Later in the year, Tullow confirmed that the deposits were large enough for commercial production. Since the discovery of oil deposits in 2012, the government of Kenya has entered into concessions for commercial production of oil, targeting full production by the year 2016. There is justified expectation that local production of oil will completely change the dynamics of the petroleum industry in Kenya once it begins.

1.1.4 Oil marketing firms in Kenya

Prior to liberalization of the petroleum industry in Kenya in October 1994, Seven marketing and distribution companies were responsible for procuring and importing their own oil through the Open Tender System coordinated by the Ministry of Energy. The seven companies included six multinationals namely Royal Dutch Shell, The British Petroleum (BP), Caltex, Total, ExxonMobil, Kenol & Kobil and the National Oil Corporation of Kenya (NOCK). Since liberalization, the government of Kenya has licensed many new companies to trade in petroleum products including import and export as well as in wholesale and retail. However, despite this initiative, the many new entrants that are actively trading command a market presence of less than 30% of the market share due to tariff and non-tariff barriers to entry. The petroleum business is also capital intense a fact that limits the number of participants in the industry.

In the last two decades, there has been several factors that have adversely influenced the petroleum industry both globally through to locally. The liberalization of the industry in Kenya allowed new market entrants to establish retail service stations and mini depots as independent oil marketing companies. Although each of such companies own small number of stations, there are many of such companies with stations spread all over the country and this grossly influenced the competition forces in the industry environment. Through liberalization, the new entrants started direct importation of products there by avoiding local sourcing from the established multinationals, which gave them a considerable cost advantage. Due to the small sizes of the independent oil companies in

Kenya, majority of them did not establish standardized organizations and therefore they lacked operational ethics. Before the establishment of the ERC, many of them were involved in adulteration of products, which they sold at much cheaper prices compared to those offered by the Multinationals. The multinationals have vast capital invested and therefore attracts high overheads meaning that their break-even points are much higher than those of the smaller companies are. To the disadvantage of the multinationals, despite offering assured quality to customers, the Kenyan Market is very price sensitive and therefore the independents used pricing as competitive tool. This was a game changer in the industry as it eventually forced half of the Multinationals that existed before liberalization to pull out of the market in the last decade due to declining profits.

ExxonMobil Kenya Limited, an American owned Multinational, was the first to exit the Kenyan market in 2006 after its acquisition by Libya Oil Kenya Ltd who operate under the Oilibya brand. Chevron, which is also American owned was the second Multinational to exit in 2008 after its acquisition by Total Kenya Limited. In the year 2012, Shell Kenya Limited, a multinational merger between Royal Dutch Shell and BP also exited the Kenyan market after its acquisition by Vivo Energy Kenya Limited.

The oil-marketing firms operating in Kenya are categorized to two groups: the majors and the smaller firms. The majors include:

Total Kenya Limited, a subsidiary of Total, Vivo Energy Kenya Limited a subsidiary of Vivo Energy, which is a pan African Oil Company, Libya Oil Kenya Limited a subsidiary of Libya Oil Corporation, which is also a Pan African Oil company, Kenol Kobil, which is a regional establishment and NOCK, which is wholly owned by the government of Kenya. The majors command amongst themselves a total of 70% market share. The smaller firms' category includes the smaller companies among others Gulf Energy, Galana Oil, Hashi Energy, Hass Petroleum and the independents. In total, there are currently 35 oil-marketing firms trading in Kenya per PIEA August 2014.

1.2 Research Problem

For a firm to formulate appropriate strategies that will enable it respond effectively to environmental competitive pressures, it is prudent that the firm understands the underlying sources of the competitive pressure in its industry, Porter (1979). Competitive advantage is created when resources and capabilities that are owned exclusively by the firm are applied to developing unique competencies.

Since the advent of petroleum trade in Kenya in 1903, the petroleum industry remained a lucrative industry locally for the following century. Following the liberalization of the industry in 1994, the petroleum market in Kenya experienced fundamental environmental changes that resulted in enormous increase in competition forces. Many independent companies were established within a short period, growing the number of oil marketing firms in Kenya from seven to thirty-five within a very short period. The independent companies became a permanent threat to the key players in the market, forcing many of the oil marketing multinationals to close shop in Kenya. The independents enjoy lower investment and running costs compared to the major firms, others engage in non-ethical practices including product adulteration due to lack of standardization and clear policies. Such factors among others allow the independents undue advantage in price wars and is a big cause for high competition in the oil market in Kenya. In the wake of the diminishing profits resulting from increased competition in the industry, petroleum firms have had to employ various strategies to seek competitive advantages in order to remain operational and competitive.

The field of petroleum industry in Kenya has been widely studied. Mwangi (2012) researched on Factors that influence relocation of Multinational Oil companies based in Kenya to other countries and found that major reasons that led to the exit was shrinking profit margins. Chege (2012) researched on challenges of strategy implementation for firms in the petroleum industry in Kenya and found that the major challenges were technology, resource allocation, job responsibilities, prioritization, organization structure, values and resistance to change. Kieyah (2011) carried out a study on the petroleum industry in Kenya while Deloitte (2013) researched on the oil and gas potential in East Africa. The Institute of Economic Affairs (2000) researched on the state of Petroleum Industry in Kenya since Liberalization. There had been no research yet on the strategies adopted by oil marketing firms in Kenya to remain competitive, in spite of the high competition experienced in the Oil industry in Kenya that has contributed to the exit of a number of oil marketing multinationals from the market. This study sought to fill this empirical gap by answering the following research question: What are the strategies adopted by oil marketing firms in Kenya to remain competitive?

1.3 Research objective

The objective of the study was to determine the strategies adopted by oil marketing firms in Kenya to remain competitive

1.4 Value of the study

This study involved research that got results of importance to the petroleum marketers in Kenya, the government of Kenya, which is responsible for directing, policy formulation and regulating the petroleum sector, as well as to the academic community. The oil marketing firms will learn strategies applied by their market leaders and this will assist them advance their competitive strategies for better performances.New investors interested in petroleum marketing will also be provide with a broad overview of the industry practices and this will benefit them during their investment strategizing stage.

The government, which directs policy and regulations in the sector will benefit from insights on the strategies and operations employed by competitors in the industry for survival. The government will be in a better position to put better policies and regulations that shall safeguard investors in the petroleum sector through compliance to standards and ethics. This will allow the investors to earn fair returns on their investment. Further, the government will have insight on the reasons multinationals in the petroleum industry have in the recent past relocated from the country and hence will be in good position to draw and effect measures that will improve the market practices and hence aid in stemming further exit by the remaining multinationals in Kenya.

The academic community will also benefit through added knowledge usable for training and further research. The study will provide literature usable for broadening knowledge in strategy and business competitiveness. Scholars perusing research on the petroleum industry in Kenya and especially on strategies in the marketing firms will have an added literature to review.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter gives an account of what has been published on competitive strategies by accredited scholars and researchers, with the purpose of providing the readers with the knowledge and ideas that have been established on the topic relative to their strengths and weaknesses and how they contribute to firm’s performance. The chapter will critically look at the theoretical and empirical literature of the subject under study.

2.2 Theoretical Foundation

Theories concerning competitive strategies and financial performance have been documented in the strategic literature. Some of the theories relating to the subject of this study include Resource based theory and theory of competitive advantage and are discussed below.

2.2.1 Resource Based Theory

Resource based theory also referred to as resource-based view (RBV) as a basis for the competitive advantage of a firm lies primarily in the application of a bundle of valuable tangible or intangible resources at the firm's disposal (Mwailu & Mercer, 1983). To transform a short-run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile (Peteraf, 1993). If these conditions hold, the bundle of resources can sustain the firm's above average returns. Resource based theory recognizes people's entrepreneurial kills and organizations entrepreneurial capabilities as organizational resources. The theory proposes that firms have the primary objective of superior financial performance, it implies that firms seek a level of performance exceeding some referent, the specific measure of financial performance might be profits, return on assets, return on equity whereas the specific referent might be the firm's own performance in a previous time period. Superior performance at a point in time results from occupying marketplace positions of competitive advantage and thereby superior financial performance. Firms that recognize the resources they own and set their strategies based on them being their strength stand better chances to achieve competitive advantages.

2.2.2 Theory of Competitive advantage

Barney (1991) asserted that a firm has a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors. When two or more firms compete within the same market, one firm possesses a competitive advantage over its rivals when it earns a persistently higher rate of profit (Grant, 1996). Competition exist when different organization seek commitments of time and energy from the same target markets and an organization faces competition when its success depends upon behaviour of other actors who are trying to fulfill similar customer needs. Porter (1979) noted that it is a prudent for any firm to understand the underlying sources of competitive pressure in this industry in order to formulate appropriate strategies to respond. Firms often respond to such environmental changes through strategic responses.

Hax and Majluf (1996) stated that competitive advantage is created when resources and capabilities that are owned exclusively by the firm are applied to developing unique competencies. Moreover, the resulting advantage will be sustained if firm's rivals substitution and imitation capabilities.

A firm's competitive advantage often arises from one or more of the following three sources: ownership-based, proficiency-based and access-based. A firm can gain advantage by ownership or possession of certain assets or factors, unique resource endowment (Barney, 1991) or reputation (Hall, 1992), opportunity or rights to gain superior access to inputs and markets (Lieberman and Montgomery, 1988). Other ways of gaining competitive advantage are through producing quality products at lower costs and delivering the right products and/ or service to its customers in the right place at the right price and time through the right channels. Simply put, to achieve any advantage in business, a firm has to look deeply and systematically into what it has, what it knows, what does and what it can get in order to provide better value to its customers than its rivals can

2.3 Competitive strategies

Hofer and Schendel (1979) describe strategy as the basic characteristic of the match an organization achieves with its environment. Aosa (1992) argues that strategy is creating a fit between the external characteristics and the internal conditions of an organization to solve strategic problem, which is a mismatch between the internal characteristics of an organization and its external environment. Porter noted that every firm that is competing in an industry must have a competitive strategy whether explicit or implicit. A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average, Porter (1998). The fundamental basis of above average profitability in the long run is sustainable competitive advantage. There are three generic strategies for achieving above average performance in an industry: cost leadership, differentiation, and focus.

2.3.1 Cost Leadership Strategy

This generic strategy calls for being the low cost producer in an industry for a given level of quality. The firm sells its products either at average industry prices to earn a profit higher than that of rivals, or below the average industry prices to gain market share. In the event of a price war, the firm can maintain some profitability while the competition suffers losses. Even without a price war, as the industry matures and prices decline, the firms that can produce more cheaply will remain profitable for a longer period of time. The cost leadership strategy usually targets a broad market. Some of the ways that firms acquire cost advantages are by improving process efficiencies, gaining unique access to a large source of lower cost materials, making optimal outsourcing and vertical integration decisions, or avoiding some costs altogether. If competing firms are unable to lower their costs by a similar amount, the firm may be able to sustain a competitive advantage based on cost leadership. Each generic strategy has its risks, including the low cost strategy. Other firms may be able to lower their costs as well. As technology improves, the competition may be able to leapfrog the production capabilities, thus eliminating the competitive advantage. Additionally, several firms following a focus strategy and targeting various narrow markets may be able to achieve an even lower cost within their segments and as a group gain significant market share.

2.3.2 Differentiation Strategy

A differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition. The value added by the uniqueness of the product may allow the firm to charge a premium price for it. The firm hopes that the higher price will more than cover the extra costs incurred in offering the unique product. Because of the product's unique attributes, if suppliers increase their prices the firm may be able to pass along the costs to its customers who cannot find substitute products easily. Firms that succeed in a differentiation strategy often have the following internal strengths: Access to leading scientific research, highly skilled and creative product development team, Strong sales team with the ability to communicate the perceived strengths of the product and corporate reputation for quality and innovation. The risks associated with a differentiation strategy include imitation by competitors and changes in customer tastes. Additionally, various firms pursuing focus strategies may be able to achieve even greater differentiation in their market segments.

2.3.3 Focus Strategy

The focus strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation. The premise is that the needs of the group can be better serviced by focusing entirely on it. A firm using a focus strategy often enjoys a high degree of customer loyalty, and this entrenched loyalty discourages other firms from competing directly. Because of their narrow market focus, firms pursuing a focus strategy have lower volumes and therefore less bargaining power with their suppliers. However, firms pursuing a differentiation-focused strategy may be able to pass higher costs on to customers since close substitute products do not exist. Firms that succeed in a focus strategy are able to tailor a broad range of product development strengths to a relatively narrow market segment that they know very well. Some risks of focus strategies include imitation and changes in the target segments. Furthermore, it may be easy for a broad-market cost leader to adapt its product in order to compete directly.

2.4 Strategies and Competitiveness of the firm

Competitiveness is a multidimensional concept. It is viewed from three different levels: country, industry, and firm level. Competitiveness originated from the Latin word, competer, which means involvement in a business rivalry for markets. It has become common to describe economic strength of an entity with respect to its competitors in the global market economy in which goods, services, people, skills, and ideas move freely across geographical borders (Murths, 1998). Firm level competitiveness can be defined as the ability of firm to design, produce and or market products superior to those offered by competitors, considering the price and non-price qualities (D'Cruz, 1992). Competitiveness processes are those processes, which help identify the importance and current performance of core processes such as strategic management processes, human resources processes, operations management processes and technology management processes.

Porter defined competitiveness at the organisational level as productivity growth that either is reflected in lower costs or differentiated products that command premium prices. The generic strategies given by Porter also emphasizes these criteria (Porter, 1990). In today's turbulent business environment, dynamic capabilities, flexibility, agility, speed, and adaptability are becoming important sources of competitiveness. For a firm to get to a better competitive position against its rivals therefore, it must employ strategies that enable it to achieve one or combination of two of the generic competitive strategies.

2.5 Summary

The concept of competitive strategies has largely been attributed to the work of Michael Porter. Porter (1980) views an effective competitive strategy as taking an offensive or defensive action to create a defendable position in an industry to cope with competitive forces and yield a superior return on investment for the firm. Competitive strategy not only responds to the environment but also attempts to shape that environment in a firm's favor. Knowledge of the competitive forces and the firm's capabilities highlight areas where the company should confront competition and areas where it should avoid it. Porter (1980) observes that firms have discovered many different approaches or strategies and the best strategy for a given firm is a unique construction reflecting its particular circumstance.

Understanding the competitive forces, and their underlying causes, reveals the roots of industry's profitability while providing a framework for anticipating and influencing competition over time. A healthy industry structure should be as much a competitive concern to strategists as their company's own position. Understanding industry structure is also essential to effective strategic positioning. Defending against the competitive forces and shaping them in a company's favor are crucial to strategy. The strongest competitive force or forces determine the profitability of an industry and become the most important to strategy formulation.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used to carry out the study. The chapter considers in detail the methods that were used to collect primary and secondary data required in the study. In this chapter, the researcher discusses the research design, population, sample design and its size and the data collection and analysis techniques and tools.

3.2 Research Design

This study employed a descriptive survey research design. Descriptive research is used to obtain information concerning the status of the phenomena to describe what exists with respect to variables or conditions in a situation (Cooper & Schindler, 2006). This enabled the analysis of the strategies adopted by oil marketing firms in Kenya to remain competitive. This design was appropriate for this study for it involved getting data from employees at different oil marketing firms operating in Kenya.

3.3 Population of the study

According to Mugenda and Mugenda (2003), target population is the members of a real or hypothetical set of people, events or objects the researcher wishes to generalize the results of the research. The population of this study was the 31 oil-marketing companies in Kenya. The firms were categorized in three levels based on their market share as follows: Major companies, the six firms whose individual market share was above 4%; Medium sized companies comprising the eleven companies whose individual market share was between 1% and 4% and the Small companies whose individual market share was less than 1%

3.4 Data Collection

The data to be collected was descriptive in nature. A questionnaire was used as the data collection instrument as it allowed access to large databases and the use of advanced statistical techniques (Borg & Gall 1996). The questionnaire was structured to meet the objectives of the study and mostly contained closed ended questions with Likert scale response guide. The Business development manager and the Marketing managers were the respondents for each of the major and the middle-sized firms, while for the small firms the CEOs were the only respondents. The questionnaires were sent via mail to respondents after prior notification and briefing by phone call or through face-to-face meetings.

3.5 Data Analysis

The data obtained from the respondents was analyzed through descriptive data analyzing techniques by employing a Social Science Software Program. The raw data obtained from the questionnaires was organized, cleaned and entered into SPSS to generate a tabulated report, charts, and plots of distributions. SPSS provides a user interface that makes easy and intuitive for all levels of users.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the findings of the study whose main objective was to determine the strategies adopted by oil marketing firms in Kenya to remain competitive.

4.2 Response rate

The researcher distributed questionnaires to 48 respondents comprising CEOs, business development managers and the marketing managers of oil marketing firms. 37 questionnaires were returned. This accounts for a response rate of 77%, which is above the 70% threshold recommended by Mugenda and Mugenda (2010).

4.3 Organizational characteristics of oil firms

The researcher collected information on the oil firms participating in the study. This included information on the type of ownership of the firm, the number of countries where the company was present, number of employees, number of plants and depots, number of retail outlets and number of years in operation. The findings are presented in this section.

4.3.1 Number of countries where the company was present

Findings in Table 4.1 indicate that 42% of the oil firms in the study were present in over 11 countries while 37% of the companies were present in between 1 and 5 countries. The findings show that the majority of the participating oil firms were spread in many countries.

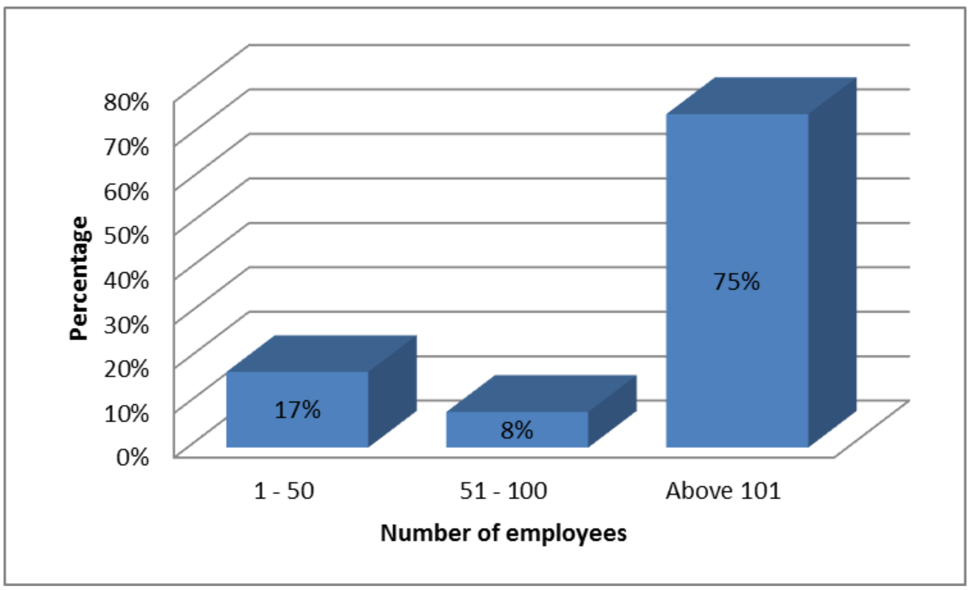
Table 4.1 Number of countries where the company was present

Number of countries	Frequency	Percentage
1 – 5	9	37%
6 – 10	5	21%
Over 11	10	42%
Total	24	100%

4.3.2 Number of employees

A significant number (75%) of the oil firms in the study had over 101 employees. The findings show that that majority of oil firms were big in terms of the number of employees in the company. The large number of employees could be attributed to the presence of these companies in many countries as shown in Table 4.1.

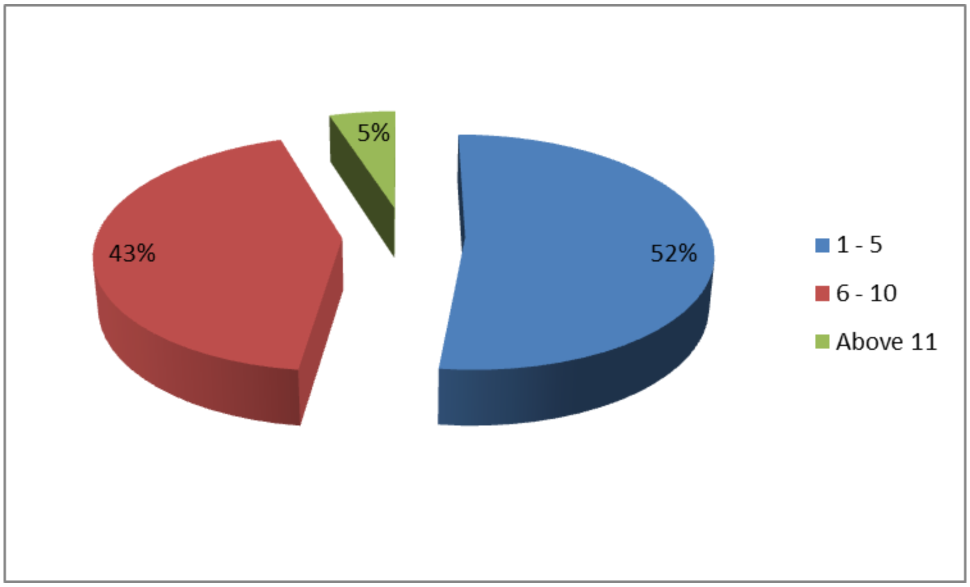
Figure 4.1 Number of employees



4.3.3 Number of plants and depots

Findings in Figure 4.2 show that majority (52%) of the companies in the study had between 1 and 5 plants and depots while 43% had between 6 and 10 depots. This shows that the oil firms had few plants and depots.

Figure 4.2 Number of plants and depots



4.3.4 Number of retail outlets

Findings in Table 4.2 indicate that 46% of the oil firms in the study had between 1 and 50 retail outlets while 38% had above 100%. The findings show that oil firms had a large number of outlets across the country.

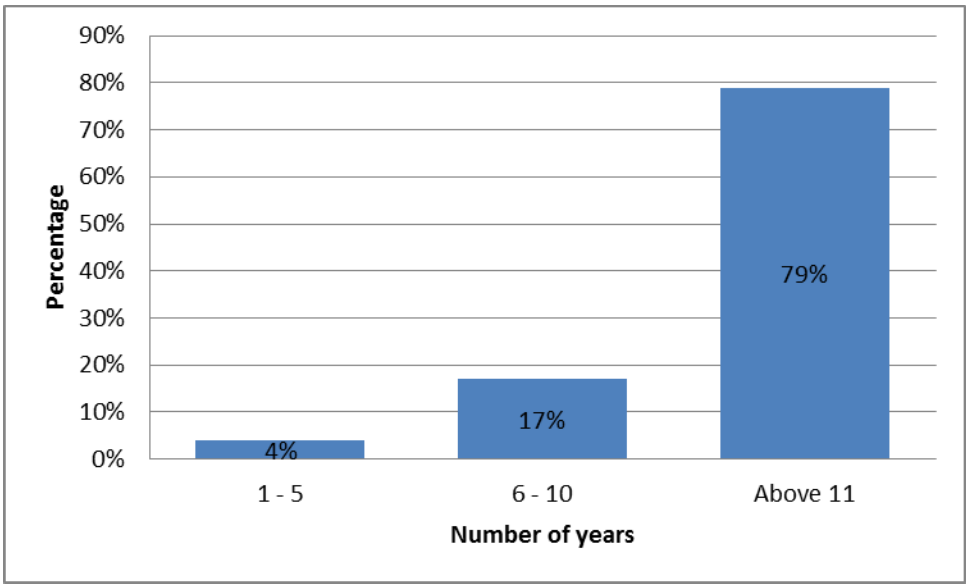
Table 4.2 Number of retail outlets

Number of outlets	Frequency	Percentages
1 – 50	11	46%
51 – 100	4	16%
Above 100	9	38%
Total	24	100%

4.3.5 Number of years of operation

A significant number (79%) of the respondents indicated that their oil firm had been operating in Kenya for over 11 years. The findings show that the oil firms had been in operation for a long time to enable the respondents give resourceful information on the competitive strategies.

Figure 4.3 Number of years of operation



4.3.6 Ownership of oil firms

Findings in Table 4.3 indicate that 41% of the oil firms in the study were chain subsidiaries whereas 27% were owned by individuals (sole proprietorship)

Table 4.3 Ownership of oil firms

Ownership	Frequency	Percentage
Public limited	5	23%
Chain subsidiary	9	41%
Government owned	2	9%
Sole ownership	6	27%
Total	22	100%

4.4 Competitive strategies adopted by oil firms

This section presents findings of the various competitive strategies adopted by the oil firms in the study.

4.4.1 Cost leadership strategy

The researcher sought to find out whether the oil firms in the study adopted cost leadership strategy. This was achieved through asking the respondents to rate the extent to which the strategy was employed in their respective firms.

Table 4.4 Cost leadership strategy

	Very low	Low	Moderate	High	Extremely high
Proper capacity utilization; storage facilities, blending and filling plants	4%	9%	33%	21%	33%
Strategic location of storage, filling and loading facilities	4%	4%	21%	38%	33%
Economies of scale through expansive market share	8%	8%	33%	33%	18%
Low inputs costs	4%	8%	33%	33%	22%
Operational efficiency through reduced wastage of time and resources		8%	25%	50%	17%
Minimising R&D and advertising costs		4%	27%	55%	14%
Paying low wages either directly or outsourcing	17%	29%	29%	13%	12%
Staff retrenchments	42%	21%	29%	4%	4%
Outsourcing of services	17%	13%	48%	18%	4%
Closing and disposal of establishments	21%	21%	37%	17%	4%
Squeezing suppliers on price	4%	4%	35%	35%	22%
Extended period for Payables	4%	13%	35%	17%	31%

Findings in Table 4.4 show that majority (54%) of the respondents indicated that there was a high practice of proper capacity utilization; storage facilities, blending and filling plants; 71% indicated that there was a high strategic location of storage, filling and loading facilities while 52% indicate that there was a high practice of economies of scale through expansive market share. In addition, 55% of the participants indicate that their companies employed low inputs costs. Majority (67%) of the respondents indicated that there was a high operational efficiency through reduced wastage of time and resources while 69% indicate that there was a high practice of minimising R&D and advertising costs.

On the question as to whether the oil firms paid low wages either directly or through outsourcing 46% indicated that this was low while 29% indicated that this was done to a moderate extent. Majority (63%) indicated that there were low staff retrenchments. As to whether the oil firms outsourced their services, 48% indicated that this was done to a moderate extent; 42% of the respondents indicate that there was low closing and disposal of establishments whereas 37% indicated that this was done to a moderate extent. Majority (57%) of the participants indicated that the oil firms squeezed the suppliers on price. 48% of the participants indicate that there was high extended period for Payables whereas 35% indicated that this was done to a moderate extent.

The study finds that majority of the firms employed cost leadership strategy to ensure competitive advantage. The most notable strategies under cost leadership were strategic location of storage, filling and loading facilities, minimising R&D and advertising costs and high operational efficiency through reduced wastage of time and resources. There was also use of low inputs costs and squeezing of suppliers. The study also finds that majority of oil firms avoided retrenchment of workers, closing and disposal of establishments. Outsourcing was done to a moderate extent.

The study therefore finds that in the face of fierce competition and fluctuating prices majority of companies employed the cost leadership strategy. The findings are therefore in agreement with Aosa (1992) who indicated that even without a price war, as the industry matures and prices decline, the firms that can produce more cheaply will remain profitable for a longer period. The findings are also in agreement with porter (1988) who indicated that some of the ways that firms acquire cost advantages are by improving process efficiencies, gaining unique access to a large source of lower cost materials, making optimal outsourcing and vertical integration decisions, or avoiding some costs altogether.

4.4.2 Differentiation strategy

The researcher sought to find out whether the oil firms in the study adopted differentiation strategy. This was achieved through asking the respondents to rate the extent to which the strategy was employed in their respective firms.

Table 4.5 Differentiation strategy

	Very low	Low	Moderate	High	Extremely high
Rapid product innovation	13%	26%	22%	26%	13%
High quality products	17%	13%	20%	21%	29%
High customer attendance standards	8%	4%	29%	34%	25%
Longer operating hours	4%	21%	29%	25%	21%
Consistent product availability		4%	13%	46%	38%
High Equipment and facility reliability		4%	17%	50%	29%
Brand and Image management		25%	21%	13%	42%
Additional payment methods	4%	17%	25%	21%	33%
Customer incentive programs	8%	13%	33%	42%	4%

Findings in Table 4.5 show that 39% of the participants indicated that there was high rapid product innovation; however, an equal number (39%) indicated that this practice was low in their companies. Majority (59%) indicated that there was high customer attendance standards whereas 46% indicated that there were longer operating hours in their oil firms.

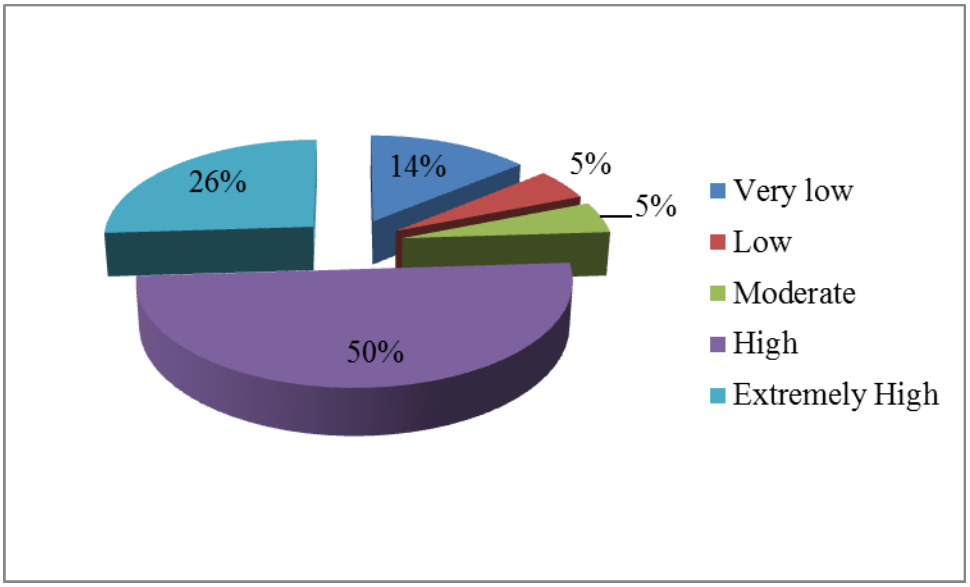
A significant number (84%) indicated that there was consistent product availability. As well, a significant (79%) of respondents indicated that there was high use of high equipment and facility reliability. 55% of the participants indicate that there was high brand image management whereas 54% indicate that their oil firms adopted additional payment methods. 42% of the respondents indicate that there was high use of value-added products and or services whereas 33% indicate that this was done to a moderate extent. As to whether the oil firms adopted customer incentive programs, 46% of the respondents indicated that this was highly done while 33% indicated that it was done to a moderate extent.

The study therefore finds that majority of oil firms adopted the differentiation strategy in pursuit of competitive advantage. The main strategies employed under differentiation included consistent product availability and high equipment and facility reliability. There was also the use of high customer attendance standards, brand image management and use of additional payment methods. The findings are therefore in agreement with Porter (1998) who indicated that a differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition.

4.4.3 Focus strategy

The researcher sought to find out whether the oil firms in the study adopted focus strategy. This was achieved through asking the respondents to rate the extent to which there was use of segmented markets.

Figure 4.4 Use of segmented markets



A significant number (76%) indicated that their oil firms used segmented markets as a method of competitive advantage. Segmented markets ensure that the firms are able to focus on markets with high returns or markets which don't call for high production costs. The findings are therefore in agreement with Hofer and Schendel (1979) who indicated that a firm using a focus strategy often enjoys a high degree of customer loyalty, and this entrenched loyalty discourages other firms from competing directly. Because of their narrow market focus, firms pursuing a focus strategy have lower volumes and therefore less bargaining power with their suppliers

4.4.4 Use of other strategies

The researcher sought to find out whether the oil firms in the study adopted any other strategy in search of competitive advantage.

Table 4.6 Use of other strategies

	Very low	Low	Moderate	High	Extremely high
Strategic alliances for nonfuel offerings.	13%	17%	21%	25%	25%
Competitive reward and remuneration package to attract and retain highly skilled labour	4%	8%	38%	25%	25%
Investment in Local network expansion – increasing number of stations		8%	17%	29%	46%
Expansion into new markets – Internationalization		13%	17%	46%	25%
Business Refocusing and restructuring	8%	8%	33%	33%	17%

Findings in Table 4.6 indicate that 50% of the respondents indicated that there was high use of strategic alliance for nonfuel offerings; similarly, (50%) indicated that there was high use of competitive reward and remuneration package to attract and retain highly skilled labor. A significant number (75%) of the participants indicated that there was high investment in local network expansion by increasing number of stations. Half (50%) of the participants indicate that there was high use of business Refocusing and restructuring.

The study therefore finds that apart from the cost leadership and differentiation strategies, the oil companies employed other strategies with an aim of increasing their competitive advantage. The most widely used strategy here was the high investment in local network expansion by increasing number of stations. The companies ventured into new markets by increasing their branches and thereby increasing their profit margin. The findings are therefore in agreement with Barney (1991) who indicated that increased penetration strategies, pricing strategies and market expansion strategies are some of the other strategies that firms adopt in order to enhance their competitive edge over their competitors.

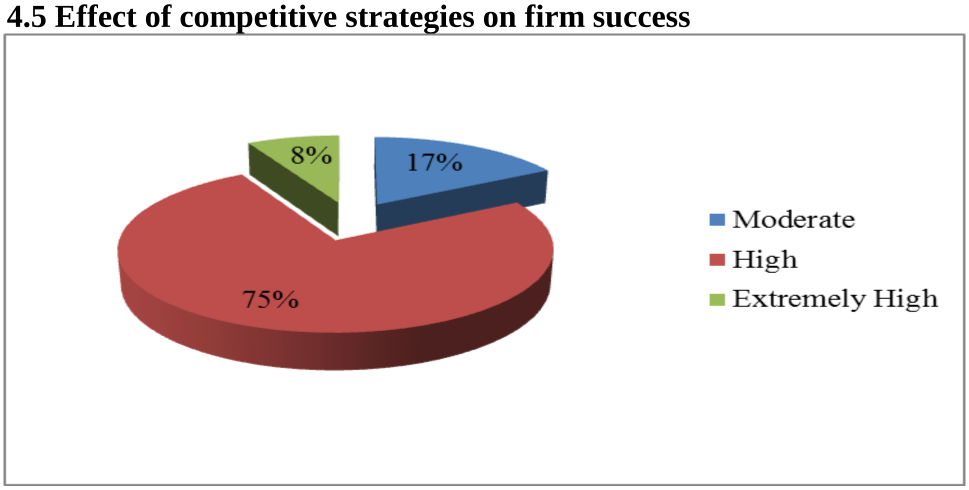
4.5 Competitiveness of oil marketing firms

The researcher sought to find out how competitive the oil firms in the study were.

4.5.1 Competitive strategies and firm success

Participants in the study were asked to indicate how effective the competitive strategies adopted by the firm were in ensuring the success of the organization.

Figure 4.5 Effect of competitive strategies on firm success



A significant number (92%) indicated that the competitive strategies used ensured that the oil firms remained competitive. The findings show that the cost leadership strategy, differentiation strategy and market expansion strategy were effective in enhancing the competitiveness of the oil firms. The findings are therefore in agreement with Porter (1980) who indicated that a competitive strategy aims at gaining and maintaining competitive advantage over business rivals. It is therefore the actions that a firm does which enables it perform better compared to its rivals.

4.5.2 Strategies to enhance the oil marketing business

The respondents in the study were asked to make recommendations regarding government policies and the general environment of the oil marketing business in Kenya. The major theme emerging from the responses was that the oil marketing business had been infiltrated by unscrupulous dealers; the so-called briefcase companies. According to the respondents, these illegal marketers were able to sell at a lower price creating a non-level playing field in the business. The participants recommended a stringent licensing system and emphasis on the implementation on the Energy act. The respondents also recommended quality control measures.

Another major theme emerging from the respondents' recommendations was that of taxation. The participants felt that the taxes for oil marketers were very high. Majority of the respondents felt that the requirement to pay taxes upfront negatively affected the oil marketers' financial position. The respondents recommended that the taxes be reduced and that the government provide incentives and tax breaks for the players in the oil marketing business. A few participants recommended that kerosene be taxed whereas LPG equipment be tax-free to promote income for the sector.

Other recommendations included expansion of oil facilities such as the pipeline, storage facilities and the oil jetty. There was a recommendation that the railway services to be upgraded to aid oil transportation. Removal of open tender system of fuel procurement was another recommendation and the removal of the price regulation by ERC.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary, conclusion and recommendations drawn from the study. The conclusions are drawn from the objective that the study sought to realize as well as the research findings. The chapter also covers the limitations of the study and makes recommendations on areas that will require more research to enhance greater understanding of the subject area.

5.2 Summary

The purpose of this study was to determine the strategies adopted by oil marketing firms in Kenya to remain competitive. The study employed a descriptive survey research design. The population of this study was the oil-marketing companies in Kenya. A questionnaire was used to collect data from 48 CEOs, business development managers and the marketing managers of oil marketing firms. The data obtained from the respondents was analyzed through descriptive data analyzing techniques by employing a social science software program.

Majority (54%) of the respondents indicated that there was a high practice of proper capacity utilization; storage facilities, blending and filling plants; 71% indicated that there was a high strategic location of storage, filling and loading facilities while 52% indicate that there was a high practice of economies of scale through expansive market share. In addition, 55% of the participants indicate that their companies employed low inputs costs. Majority (67%) of the respondents indicated that there was a high operational efficiency through reduced wastage of time and resources while 69% indicate that there was a high practice of minimising R&D and advertising costs.

A significant number (84%) indicated that there was consistent product availability. 79% of respondents also indicated that there was high adoption of high equipment and facility reliability. 55% of the participants indicate that there was high brand image management whereas 54% indicate that their oil firms adopted additional payment methods. 42% of the respondents indicate that there was high use of value-added products and or services whereas 33% indicate that this was done to a moderate extent. As to whether the oil firms adopted customer incentive programs, 46% of the respondents indicated that tis was highly done while 33% indicate that this was done to a moderate extent.

A significant number (76%) indicated that their oil firms used segmented markets as a method of competitive advantage. 50% of the respondents indicated that there was high use of strategic alliance for nonfuel offerings; similarly, (50%) indicated that there was high use of competitive reward and remuneration package to attract and retain highly skilled labor. A significant number (75%) of the participants indicated that there was high investment in local network expansion by increasing number of stations. Half (50%) of the participants indicate that there was high use of business Refocusing and restructuring.

5.3 Conclusion

The study found that the oil firms employed various strategies to remain profitable in a largely competitive market. The study concludes that the strategies adopted by the oil firms included the cost leadership strategy, differentiation strategy, focus strategy and market expansion strategy. The researcher also concludes that cost leadership and focus strategies were the most widely used competitive strategies.

The oil firms ensured cost leadership strategy by strategic location of storage, filling and loading facilities, minimising R&D and advertising costs and high operational efficiency through reduced wastage of time and resources. Under differentiation strategy, the oil firms adopted consistent product availability and adoption of high equipment and facility reliability. There was also the use of high customer attendance standards, brand image management and use of additional payment methods. Under market expansion strategy, the oil firms ensured consistent product availability and use of high equipment and facility reliability. There was also the use of high customer attendance standards, brand image management and use of additional payment methods. Under focus strategy, the oil firms used segmented markets as a method of competitive advantage.

The researcher also concludes that the cost leadership strategy, differentiation strategy, focus strategy and market expansion strategy were effective in enhancing the competitiveness of the oil firms.

5.4 Recommendations

Since oil marketers cannot control the prices of oil products, the firms should focus on adopting majority of cost leadership strategies to ensure that that their profit margin increases. The government through the Energy Regulation Commission should ensure that the players in the oil marketing business compete on a level ground by enforcing the energy act fully and getting rid of unscrupulous marketers. The government should also remove the price regulation in the oil market to enable oil marketers practice price leadership strategy.

5.5 Limitations of the study

It was difficult to get hold of some of the CEOs, business development managers and the marketing managers of oil marketing firms who are usually busy in their roles. Some of the targeted respondents were not reached and some were unable to respond at all resulting in a less than perfect response rate. The researcher had a very small window of time to carry out the study. The study had also financial implications, which were solely met by the researcher.

5.6 Suggestions for further research

Whereas the oil firms in the study were spread across a number of countries, the current study focused on their operations in Kenya. Future studies should attempt to check for the competitive strategies employed in the various countries that the firms operate.

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APPENDICES

Appendix I: Introduction Letter

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

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

P.O. Box 30197
Nairobi, Kenya

DATE 24/09/14

TO WHOM IT MAY CONCERN

The bearer of this letter PAUL K. MUEMA

Registration No. D61/60652/2013

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

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

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

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
24 SEP 2014
P.O. Box 30197 - 00100, NAIROBI

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

Appendix II: Questionnaire

SECTION A: GENERAL INFORMATION

1. Please indicate name of your organization (optional) ___________________________

2. General information about your organization

a) Number of countries the company is present

1 - 5 [ ] 6 - 10 [ ] 11 - Above [ ]

b) Number of employees

1 - 50 [ ] 51 - 100 [ ] 101 - Above [ ]

c) Number of plants and depots

1 - 5 [ ] 6 - 10 [ ] 11 - Above [ ]

d) Number of retail outlets

1 - 50 [ ] 51 - 100 [ ] 101 - Above [ ]

e) Number of years of operation in Kenyan market

1 - 5 [ ] 6 - 10 [ ] 11 - Above [ ]

3. Please indicate the ownership structure of your organization.

Public limited company [ ] Chain subsidiary [ ] Government Owned [ ] Sole ownership [ ]

SECTION B: COMPETITIVE STRATEGIES

4. The following are some of the strategies adopted by different firms for competitiveness. Using a scale of 1 to 5 where 1 =Very low, 2=Low, 3=Moderate, 4=High, 5= Extremely high, please indicate what extend your organization has adopted ach of them.

Cost Leadership Strategy

Proper capacity utilization; storage facilities, blending and filling plants	1	2	3	4	5
Strategic location of storage, filling and loading facilities	1	2	3	4	5
Economies of scale through expansive market share	1	2	3	4	5
Low inputs costs	1	2	3	4	5
Operational efficiency through reduced wastage of time and resources	1	2	3	4	5
Minimising R&D and advertising costs	1	2	3	4	5
Paying low wages either directly or outsourcing	1	2	3	4	5
Staff retrenchments	1	2	3	4	5
Outsourcing of services	1	2	3	4	5
Closing and disposal of establishments	1	2	3	4	5
Squeezing suppliers on price	1	2	3	4	5
Extended period for Payables	1	2	3	4	5

Differentiation Strategy

Rapid product innovation	1	2	3	4	5
High quality products (differentiated fuels, Multiple Synthetic lubricant grades)	1	2	3	4	5
High customer attendance standards at the service stations	1	2	3	4	5
Longer operating hours	1	2	3	4	5
Consistent product availability	1	2	3	4	5
High Equipment and facility reliability at service station	1	2	3	4	5
Brand and Image management	1	2	3	4	5
Additional payment methods (fuel card, Mobile money, online etc.)	1	2	3	4	5
Customer incentive programs	1	2	3	4	5
Value-Added Products/Services e.g. free services/delivery on purchase	1	2	3	4	5

Focus Strategy

Segmented markets (special attention to particular business sector e.g. exports, Commercial & Wholesale, FO, LPG bulk handling etc.)	1	2	3	4	5

Other Strategies

Strategic alliances for nonfuel offerings.	1	2	3	4	5
Competitive reward and remuneration package to attract and retain highly skilled labour	1	2	3	4	5
Investment in Local network expansion – increasing number of stations	1	2	3	4	5
Expansion into new markets – Internationalization	1	2	3	4	5
Business Refocusing and restructuring	1	2	3	4	5

SECTION C: COMPETITIVENESS OF OIL MARKETING FIRMS

5. How have the competitive strategies adopted by your organization contributed to its success? Please tick.

   Low [ ] Moderate [ ] High [ ] Very high [ ]

6. Do you have recommendations to make regarding government policies and the general environment of the oil marketing business in Kenya? Please list.

   ____
   ____
   ____
   ____
   ____

Thank you for your co-operation.

Appendix III: Market Share for Oil marketing firms in Kenya

NO	COMPANY	% MARKET SHARE
1	TOTAL	21.2
2	VIVO	19.1
3	KKOBIL	13.7
4	LIBYAOIL	6.2
5	HASHI	4.7
6	NOCK	4.5
7	GAPCO	3.6
8	ENGEN	3.2
9	GULF	3.2
10	PETRO	2.5
11	GALANA	1.6
12	BAKRI	1.5
13	HASS	1.3
14	FOSSIL	1.3
15	REGNOL	1.3
16	ESSAR	1.1
17	ONE PETROLEUM	1.0
18	GLOBAL	0.7
19	RIVAPET	0.7
20	RH DEVANI	0.6
21	MGS TOWBA	0.6
22	ROYAL	0.5
23	EAGOL	0.5
24	TROJAN	0.5
25	BANODA	0.5
26	TRADIVERSE	0.5
27	RANWAY	0.4
28	OLYMPIC	0.4
29	ORYX ENERGIES	0.3
30	TOSHA	0.3
31	AFRI- OIL	0.3

Source; ***Petroleum Institute of East Africa,*** **Kenya Petroleum Sales Market Share January to June 2014**