

# **STRATEGIES USED BY EAST AFRICAN BREWERIES LIMITED TO RESPOND TO CHANGES IN THE BREWING INDUSTRY IN KENYA**

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micro-finance  
products by low  
income  
entrepreneurs

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**DECLARATION**

**DECLARATION BY THE CANDIDATE**

This research project is my original work and has not been submitted for the award of a degree in any other university.

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**DECLARATION BY THE SUPERVISOR**

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

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I am eternally grateful to my husband Pals for the constant support and encouragement during the course of my study especially when the times got tough. I would also like to thank my mother and siblings for their continuous encouragement throughout this study.

## **DEDICATION**

I dedicate this research project to my family for their love, understanding, encouragement and support while conducting this study and throughout the MBA course

## **ABSTRACT**

In the ever changing industry environment, any company that wants to be successful and remain competitive has to have a strategy to ensure this. Every company must be willing and ready to modify its strategy in response to changing conditions, advancing technology, the fresh moves of competitors, shifting buyer needs etc. The brewing industry in Kenya has gone through some changes in the last few years, thus this research set out to find out the external changes in the brewing industry in that are affecting East African Breweries Limited and the strategies the company is using to navigate through.

This research project used a case study research design on East African Breweries Limited. The primary data was obtained from directors and senior managers with the use of an interview guide. The interview guide was used to gather data on the study topic which was the strategies used by East African Breweries Limited in responding to changes in the brewing industry in Kenya. A total of 6 interviewees were targeted however the researcher managed to interview 5. The secondary data for this study was obtained from newspapers, websites and any other relevant information.

The data was analyzed using content analysis due to the fact that it was qualitative in nature. And the findings were discussed on the environmental changes and the strategies put in place to navigate these changes. The study found that not all the changes affect the company with the same intensity, therefore they respond to those which are deemed to have a greater impact on the success and operations of the firm.

The firm continues to be cognizant of the fact that some of the changes that are seen as low risk now may become high risk in the future.

The study found that not all the forces are considered of equal risk to the company with some classified as high risk to others classified as low risk. The threat of new entrants was considered as a high risk due to favorable government policies that were attracting the new entrants. Bargaining power of buyers was not seen as a high risk due to the fact that they were many however, the company was also aware off the growing influence of the bar owner associations being formed in different areas and the potential of their growing influence. The bargaining power of suppliers was seen as high due to the few number of suppliers of the raw materials and their influence in the industry operations. The threat of substitutes was not seen as a risk due to the lack of a substitute product from another industry that would provide similar if not better benefits than alcohol. The level of rivalry in the industry was also seen to be increasing due to the level of investment that competitors were setting. This can be seen from the level of above and below the line advertising they are investing in, the innovations they are coming up with. In addition the study established that EABL had put in place strategies to address the risks identified such as for the threat of potential entrants, the firm was investing a lot in keeping abreast with the changing consumer trends and needs so that they have innovate products that will meet the consumer needs. The bargaining power of buyers was seen as a potentials threat especially with the new county government structure. However on of the strategies they were using was organizing bar owner meetings in order to keep in touch with their customers and also being members of bar owner associations so that they are aware of opportunities that maylie with this group of people.

Strategies that they had put in place to deal with the high bargaining power of suppliers were vertical integration so that they may be able to control some of their costs. Other strategies they had put in place were assisting barley farmers get financing so that they can be assured of consistent barley for brewing. A threat of substitutes was not seen as a risk thus the company did not have any strategy to deal with it. For the rivalry among existing firms, the company was continuously innovating new products such as Snapp, dark extra, Jebel, increasing investment in sales and marketing by having more national consumer promotions and leveraging on the company's strength in beer to build more scale in spirits.

This study concluded that East African Breweries Limited seems to be doing a commendable job in responding to the environmental changes the brewing industry is going through. It is evident that the firm is conscious of the importance of strategic planning in a changing environment such as the brewing industry in line with Porter's five forces model.

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# CHAPTER ONE

## INTRODUCTION

### **1.1. Background of the study**

Strategy can be defined as the priorities adopted by a firm in recognition of the business environment it operates in and its actions to achieve its business goals. Crafting a strategy requires deep contemplation of the organization's current place in its market, the possible action of others in the space, and steps necessary for the organization to reach its desired future. It is only by undertaking this intense analysis that an organization is able to spot trends, capitalize on intangible assets it has at its disposal, and out-innovate rivals. Only companies that think and act faster than their competition can win, and strategy is at the heart of the organizational thinking process.

Every company must be willing and ready to modify its strategy in response to changing conditions, advancing technology, the fresh moves of competitors, shifting buyer needs etc. In short, as Thompson, Strickland and Gamble put it, a company's strategy is always a work in progress (2007). Firms do not operate in a vacuum and because of that the environment is constantly changing. If a firm wants to remain competitive, it will have to change with the times.

This study is quite timely considering the changes that over the years have taken place in the brewing industry in Kenya, most firms especially East African Breweries Limited; which has been in the Kenyan market longest has had to and continues to try and find ways to deal with these changes. This can only be done by having innovative,

sound and actionable strategies. This research thus tries to find out the strategies being employed by this firm to ensure it continues to have a bright future.

### **1.1.1 Concept strategy**

Strategy has been defined as the direction and scope of an organization over the long term: which achieves advantage for the organization through its configuration of resources within a changing environment, to meet the needs of the markets and to fulfill stakeholder expectations (Johnson and Scholes 1997). Managers can find it quite challenging trying to steer an organization to greater heights with the uncertainty experienced in the environment. This thus forces them to evaluate the company's present position, based on its current performance, market standing, resource capabilities and competitive weaknesses (Thompson, Strickland and Gamble, 2007). Once this is done, a manager can then make an informed strategic decision based on the environment that the firm is operating in.

However, strategies exist at a number of levels in an organization and thus have to be aligned and cascade from one level to another. Johnson and Scholes (1997) explained that corporate strategy is concerned with the overall purpose and scope of the organization to meet the expectations of the owners or major shareholders while business unit strategy is about how to compete successfully in a particular market. Operational strategies tie in the component parts of the organization in terms of resources, processes, people and their skills effectively deliver the corporate- and business- level strategic direction.

To note is that a strategy is as good as its execution. A firm may have developed the best strategy compared to its competition. However, if the implementation and execution is weak then it will undermine the strategies potential. As determined by Thompson, Strickland and Gamble, the better conceived a company's strategy and more competently it is executed, the more likely that the company will be a standout performer in the marketplace (2008).

### **1.1.2 Environmental turbulence**

Environmental turbulence refers to the amount of change and complexity in the environment of a company. The greater the amount of change in environmental factors, such as technology and governmental regulations, and or the greater the number of environmental factors that must be considered, the higher the level of environmental turbulence. For many reasons environmental volatility and instability have been increasing for the past years. Ansoff defined environmental turbulence in terms of the complexity of the environment, the speed of change relative to speed of response, the visibility of the future and the predictability of the future.

This is explained by the five levels that he fashioned from the first level characterized as stable where there is no change to the fifth level which is characterized as surprising. In this level the change is very fast thus making it unpredictable (Ansoff & McDonnell, 1990). Increased volatility of the business environment makes systematic strategic management more difficult. Thus by the time a firm is operating in the fourth level, if it does not have a well thought out strategy that is executed well, then it is bound to fail.

### **1.1.3 Brewing industry in Kenya**

Kenya's brewing industry can be traced back to the year 1922 when two brothers from Britain started brewing beer. They made their company public and up to this day it operates under the name East African Breweries Limited. Kenya has a flourishing beer industry producing high quality beer, which is recognized internationally. This has been possible due to factors such as good climate for agriculture, availability of barley, affordable labor, big local market, and access to regional markets like COMESA and the East African Community.

The Kenyan brewing industry has a number of players with an earlier market study by Euro monitor having listed East African Breweries Limited as the leading beer company in Kenya, holding an 83% volume share in 2011. Its premium beer market has attracted interest, with players such as SABMiller and Heineken angling for a slice of the pie. Other players in the market include Keroche Industries, Ozbekco Ltd, brewers of Sierra beers, and Viva Product Line Ltd, distributors of Corona (East African Standard, 2012).

### **1.1.4 East African Breweries Limited, Kenya**

Kenya Breweries was founded in 1922 by two white settlers, George and Charles Hurst who started brewing beer in Kenya as an incorporated private company. By 1938 the company was recognized for having god quality beer thus winning its first international competition. According to EPZA Report 2005, bottled beer consumption in 1947 was exclusive to whites in postcolonial era. The company became a public limited company in 1934 after which it incorporated Tanganyika Breweries and changed its name to East African Breweries Ltd. In 1964 it acquired equity interest in Tanzania's Kilimanjaro

Brewery and a year later Guinness East Africa was incorporated in Kenya. By 1972 it had the largest public share issue in Kenya. This made it the only key player in beer and barley production since 1947. (EPZA report 2005)

East African Breweries Limited (EABL) is one of the leading branded alcohol manufacturing companies in East Africa. The company was formerly known as Kenya Breweries Ltd. It is principally engaged in the production, packaging and marketing of alcoholic and non-alcoholic beverages. The product portfolio of the company includes beer, spirits and non-alcoholic beverages. These products are sold under the Tusker, Tusker Malt, Pilsner, White Cap, Bell, Allsopps, Guinness, Johnnie Walker, Smirnoff, Richot, Waragi, V & A, Bond 7, Malt Guinness and Alvaro brands. The company principally operates in Kenya. East African Breweries Limited is a subsidiary of Diageo plc.

East African Breweries Limited has managed to be the most dominant player in the brewing industry in Kenya due to an extended portfolio across beer, RTDs and spirits, with a variety of mid-priced and premium products that ensure high volumes and healthy profit margins.

## **1.2 Research problem**

Pearce and Robinson (2008) define strategy as 'large scale, future oriented plans for interacting with the competitive environment to achieve company objectives'. Firms do not operate in a vacuum; there are many factors that they have to contend with thus the need for strategy. Though the plans may not be completely detailed, they provide a basis for managerial decisions. For businesses to understand adequately the nature of

the competition they face, they must define their market accurately and be in touch with their business environment in order to make sure that what they do fits with customer expectations. The competitive environment of a business is ‘the part of a company's external environment that consists of other firms trying to win customers in the same market’ (Barney & Hesterly, 2008). Therefore strategy is important because it helps a firm determine who it competes with, how it will compete and when the best time to execute its plans.

In the recent past, East African Breweries has had to deal with many changes in its competitive environment. Some of these changes have been the introduction of the ‘Alcoholic Drinks Control Act 2010’ that was put in place to regulate the sale, advertising and consumption of alcohol, increased number of competitors, increase in counterfeits and contraband, increase in cost inputs, higher taxes etc. In order to continue being the market leader in the alcohol industry in Kenya, the firm has to respond to these changes strategically in order to still remain competitive.

There have been a number of studies on how firms cope with changes in the competitive environment such as Mutua, 2004 ‘response to changing environmental conditions at the University of Nairobi, Munuve’s (2010) ‘response strategies of British American Tobacco to macro environment changes. Njau (2000) carried out a research on EABL’s response to the changing competitive environment occasioned by liberalization of the Kenyan economy at the time and linked the company’s competitive environment to Porter’s (1980) five forces model. Mwangi (2007) did a study on strategic responses to changes in the external environment: a case of East African

Breweries Limited that focused on the challenges the company was facing in the remote environment and what specific strategic responses they were applying.

Since 2007 there have been significant changes in the brewing industry in Kenya such as the introduction of the Alcoholic control Act of 2010, emergence of stronger competitors in the industry, increase in costs of raw materials, etc. These changes are thought to have had adverse effects on the operations of the players in the industry. This study thus seeks to find out what strategies have they used to deal with these changes?

### **1.3 Research objectives**

This study was guided by the following objectives

- i) To determine the external changes in the brewing industry in Kenya that are affecting East African Breweries Limited.
- ii) To establish the strategies used by East African Breweries Limited to deal with the external changes.

### **1.4 Value of the study**

This study will benefit a number of interest groups starting with the management of EABL as a reference point as well as for recommendations on areas they can improve on. The findings can be used to implement changes in their response to their environment.

The study will also benefit managers of other firms where they can draw learning's from the EABL case on how they can respond to environmental changes. The managers



in those firms may not be going through exactly what EABL is going through but they can draw some key learning.

For academicians, this study will form a foundation upon which other related and replicated studies can be based on. Investors can also gain an insight on the company and its strategic position within the environment, which can assist them in determining the viability of their investments.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This section deals with the theoretical framework of strategy and the industry environment.

#### **2.2 Theoretical foundations**

This study is informed by two main theories namely the resource based theory of competitive advantage and Porters five force s model. A resource-based view of a firm explains its ability to deliver sustainable competitive advantage when resources are managed such that their outcomes cannot be imitated by competitors, which ultimately creates a competitive barrier (Mahoney and Pandian, 1992). It expounds that for a firm to have a sustainable competitive advantage; its resources have to be rare, valuable, inimitable, non-tradable, and non-substitutable, as well as firm-specific. The firm needs to identify its key potential resources and then evaluate if they fulfill the following criteria.

A valuable resource must enable a firm to employ a value-creating strategy, by either outperforming its competitors or reducing its own weaknesses. Relevant in this factor is that the transaction costs associated with the investment in the resource cannot be higher than the discounted future rents that flow out of the value-creating strategy. To be of value, a resource must be rare by definition. In a perfectly competitive strategic factor market for a resource, the price of the resource will be a reflection of the expected discounted future above-average returns. If a valuable resource is controlled by only one

firm it could be a source of a competitive advantage. This advantage could be sustainable if competitors are not able to duplicate this strategic asset perfectly. An important underlying factor of inimitability is causal ambiguity, which occurs if the source from which a firm's competitive advantage stems is unknown. If the resource in question is knowledge-based or socially complex, causal ambiguity is more likely to occur as these types of resources are more likely to be idiosyncratic to the firm in which it resides. Even if a resource is rare, potentially value-creating and imperfectly imitable, an equally important aspect is lack of substitutability. If competitors are able to counter the firm's value-creating strategy with a substitute, prices are driven down to the point that the price equals the discounted future rents, resulting in zero economic profits.

Though there is the assumption that a firm can be profitable in a highly competitive market as long as it can exploit advantageous resources, it may not necessarily be the case. The resource based theory ignores external factors concerning the industry as a whole; a firm should also consider Porter's Industry Structure Analysis. The industry environment is the set of factors—the threat of new entrants, suppliers, buyers, product substitutes, and the intensity of rivalry among competitors—that directly influences a firm and its competitive actions and responses. In total, the interactions among these five factors determine an industry's profit potential. The challenge is to locate a position within an industry where a firm can favorably influence those factors or where it can successfully defend against their influence. The greater a firm's capacity to favorably influence its industry environment, the greater is the likelihood that the firm will earn above-average returns.

## **2.3 Firm strategy**

Strategy has been defined differently by various authors. Chandler (1962) defined it as the determination of the basic long term goals and objectives of an enterprise and the adoption of courses of action and allocation of resources necessary for carrying out the goals. A strategy is a company's game plan. It reflects a company's awareness of how, when, and where it should compete; against whom it should compete; and for what purposes it should compete. Johnson and Scholes (1997) defined it as the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a changing environment to meet the needs of markets and to fulfill stakeholder expectations.

Ansoff and McDonnell (1990) defined strategy basically as a set of decision-making rules for guidance of organizational behavior. They further added that there are four distinct types of such rules as follows. The first is yardsticks by which present and future performance of the firm is measured. The quality of yardsticks they say are called objectives and the desired quantity are goals. The second type is rules for developing the firm's relationship with its external environment which are called product-market or business strategy. The third type is rules for establishing internal relations and processes within the organization which are referred to as the organizational concept. Lastly, are the rules by which the firm conducts its day-to-day business which are called the operating policies.

## **2.4 Response strategies**

Strategic responses have been defined by Pearce and Robinson (1988) as a set of decisions and actions that result into formulation and implementation of plans designed to achieve a firm's objectives. Speed, flexibility and agility are essential requirements for organizations that operate in rapidly-changing markets as their response to these changes will determine if they are to succeed or fail. Management can be categorized in three different ways when responding to environmental changes as identified by Ansoff and McDonnell (1990) namely decisive, reactive and planned management styles. Decisive management is able to make quick decisions which end up saving the firm in terms of cost and time. This is because they are able to identify the new problem faster and deal with it. Reactive management however delays response which increases the costs to the firm. The delays are usually caused by the reluctance of managers to realize there is a problem on their hands and that decisions need to be made fast using the available information. Planned management involves forecasting discontinuous changes by use of non-extrapolative technology and triggering response at the point of forecasting. To survive in a dynamic and highly competitive business environment, different organizations have had to engage various strategies to survive. Abdullahi (2000) argued that if a firm wants to remain vibrant and successful in the long run, it must make impact assessment of the external environment, especially such relevant groups as customers, competitors, consumers, suppliers, creditors and the government and how they impact on its operations success. It is dependent on productivity, customer satisfaction and competitor strength. In his 2003 research, Muturi stated that there was a need for firms to understand their competitors' strengths and thus position their products taking advantage of the competitors'

weaknesses. In this way, a firm would avoid clashes of strength. As pointed out by Ansoff and McDonnell (1990) “the success of every organization is determined by the match between its strategic responsiveness and strategic aggressiveness and how these are matched to level environmental turbulence. As they explain, each level of environmental turbulence has different characteristics and thus requires different strategies and differing firm capabilities. So a matching strategy is needed for the environmental turbulence that the firm is experiencing in order to ensure survival, growth and development. In order for a firm to continue having a competitive edge it needs to ensure it has sustainable competitive strategies. There must be a strategic fit between the environment wants and what the firm has to offer, as well as between what the firm need and what the environment can provide (Wheelen and Hunger, 1995).

There are usually two main types of strategies: Corporate level strategies, and Generic strategies. Generic strategies are the business level strategies. While corporate level strategies focus on growth, diversification of the firm, generic strategies explain how to compete with a certain type of business. Porter (1980) came up with three main generic strategies, cost leadership, differentiation and focus. In order for a firm to boast on cost leadership, it should be the lowest cost producer and/or distributor within the industry. Its aim should be to drive costs down for all production elements from the sourcing of materials to labor costs. Large scale production is needed so that a firm can benefit from "economies of scale" if it is to be a cost leader. Large scale production means that the business will need to appeal to a broad part of the market. For this reason a cost leadership strategy is a broad scope strategy. Companies and product ranges that appeal to customers and stand out from the crowd have a competitive advantage. Porter asserts that businesses

can stand out from their competitors by developing a differentiation strategy. For this strategy, the business develops product or service features which are different from competitors and appeal to customers including functionality, customer support and product quality. A differentiation strategy is known as a broad scope strategy because the business is hoping that their business differentiation strategy, will appeal to a broad section of the market. Under a focus strategy a business focuses its effort on one particular segment of the market and aims to become well known for providing products/services for that segment. They form a competitive advantage by catering for the specific needs and wants of their niche market. Once a firm has decided which market segment they will aim their products at, Porter said they have the option to pursue a cost leadership strategy or a differentiation strategy to suit that segment. A focus strategy is known as a narrow scope strategy because the business is focusing on a narrow segment of the market.

Ansoff talked about four possible growth strategies which are; market penetration, product development, market development and diversification as strategies that managers could consider as ways to grow the business via existing and/or new products, in existing and/or new markets. However, he points out that a diversification strategy stands apart from the other three strategies. The first three strategies are usually pursued with the same technical, financial, and merchandising resources used for the original product line, whereas diversification usually requires a company to acquire new skills, new techniques and new facilities. Therefore, diversification is meant to be the riskiest of the four strategies to pursue for a firm. According to him, diversification is a form of growth marketing strategy for a company. It seeks to increase profitability through greater sales volume obtained from new products and new markets. Diversification can occur either at

the business unit or at the corporate level. At the business unit level, it is most likely to expand into a new segment of an industry in which the business is already in. At the corporate level, it is generally entering a promising business outside of the scope of the existing business unit (Ansoff 1980). The company's corporate strategy should help in the process of establishing a distinctive competence and competitive advantage at the business level. There is a very important link between corporate-level and business level. According to Johnson and Scholes (2002), corporate level responses is the first level of strategy at the top of the organization, which is concerned with the overall purpose and scope of the organization to meet the expectations of owners or major stakeholders and add value to different parts of the enterprise. This includes issues of geographical coverage, diversity of product / services or business units and how resources are to be allocated between the different parts of the organization. At a general strategic level Ansoff and McDonnell (1990), suggest three reasons why firms diversify. The objectives cannot be achieved by continuing to operate in their existing market. According to Hill and Jones (1999), they argue that focus strategy concentrates on serving particular market niche, which can be defined geographically, type of customer or by segment of the product line. It differs from the first two because it is directed towards serving the needs of a limited customer group or a segment. Hence the company is specialized in some way. A focus strategy provides an opportunity for an entrepreneur to find and then exploit the gap in the market by developing an innovate product that a customer cannot do without. The company has enormous opportunity to develop its own niche and compete against low-cost and differentiated enterprises which tend to be larger. It differs from corporate strategy in that whereas corporate strategy involves decisions about the entire



organization, strategic decision under the business units are basically concerned with how customers' or clients' needs can best be met. According to Johnson and Scholes (2002), "Business unit strategy is about how to compete successfully in particular markets".

Johnson and Scholes (2002) stated, operational strategies are concerned with how parts of an organization deliver effectively the corporate and business level strategies in terms of resources, process and people. Companies adopt strategies directed at improving, the effectiveness of basic operations within the company, such as production, marketing, materials management, research and development, and human resources. Even though strategies may be focused on a given function, as often as not they embrace two or more functions and require close co-operation among functions to attain companywide efficiency, quality innovation, and customer responsiveness goals.

## **2.5 Industry environment**

Porter (1985) observes that for firms to be able to retain competitive advantage, they need to examine their environment both internal and external and respond accordingly. The environment is increasingly turbulent and complex consisting broadly of the economy at large, population demographics, societal values and lifestyles, governmental legislation and regulation, technological factors, and the company's immediate industry and competitive environments (Thompson and Strickland, 2003). Because of this firms have been forced to position themselves strategically as never before, need to translate their insight into effective strategies to cope with their changed circumstances and lastly, to develop rationales necessary to lay the groundwork for adopting and implementing strategies in the ever changing environment (Bryson, 1995).

The speed or response time to the environment challenges has been identified (Pearce and Robinson, 2005) as a major source of competitive advantage for numerous firms in today's intensely competitive global economy. It's thus imperative to quickly adjust and formulate strategies so as not to be overtaken by events.

The industry environment is the set of factors—the threat of new entrants, suppliers, buyers, product substitutes, and the intensity of rivalry among competitors—that directly influences a firm and its competitive actions and responses. In total, the interactions among these five factors determine an industry's profit potential. The challenge is to locate a position within an industry where a firm can favorably influence those factors or where it can successfully defend against their influence. The greater a firm's capacity to favorably influence its industry environment, the greater is the likelihood that the firm will earn above-average returns.

## **2.6 Firm strategy and industry environment**

Michael Porter provided a framework that models an industry as being influenced by five forces. According to him, the industry structure has a strong influence in determining strategies available to a firm. Forces outside the industry are significant in a relative sense because they affect the industry as a whole but the key is in the differing abilities to deal with them. These five forces according to him define the state of competition in an industry.

A major force shaping competition within an industry is the threat of new entrants. The threat of new entrants is a function of both barriers to entry and the reaction from existing competitors. Some examples of the barriers faced by new entrants are

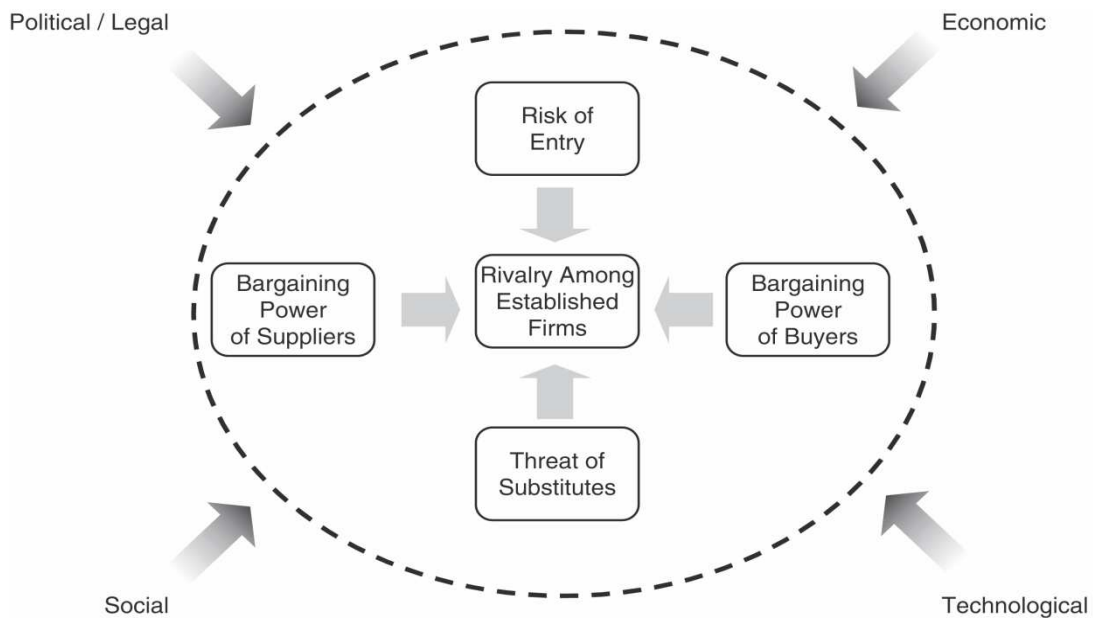
economies of scale as they require the entrant to come on large scale, risking strong reaction from existing competitors, or alternatively to come in on a small scale accepting a cost disadvantage. Porter (1980) noted that in the brewing industry product differentiation coupled with economies of scale create very high barriers. Another type may be switching costs where the new entrants may have to offer buyers a bigger price cut or extra quality or service. All this can mean lower profit margins for new entrants which would make it harder to enter the market with a competitive edge. Government agencies can also limit or even bar entry by requiring licenses and permits. National governments commonly use tariffs and trade restrictions (antidumping rules, local content requirements, and quotas) to raise entry barriers for foreign firms. Other barriers of entry could be access to distribution channels, capital requirements especially if a firm wants to compete on a large scale, product differentiation etc.

The presence of readily available and competitively priced substitutes places a ceiling on the prices companies in an industry can afford to charge without giving customers an incentive to switch to substitutes and thus eroding their own market position. Thus the availability of substitutes is considered as one of the forces.

Buyer power refers to the ability of customers of the industry to influence the price and terms of purchase. Customers are concentrated if there are only a few customers (or one) in the market, the customers will have more leverage because of the increased reliance on the income stream. A diversified customer base allows more leeway for a supplier to ignore a difficult customer requests. In another case if one customer buys a significant amount of the output from a seller, the seller will do more for the buyer to keep them as a customer.

Supplier power refers to the ability of providers of inputs to determine the price and terms of supply. Suppliers can exert power over firms and industries by raising prices or reducing the quality of purchased goods and services, so reducing profitability. The more powerful a seller is relative to the buyer, the more influence the seller has. This influence can be used to reduce the profits of the buyer through more advantageous pricing, limiting quality of the product or service, or shifting some costs onto the buyer (e.g. shipping costs)

**Figure: 1 Forces Driving Industry Competition**



Source: Adapted from Porter (1980), *Competitive Strategy: Technique for Analyzing Industries and Competitors*, p.4.

Rivalry refers to the degree to which firms respond to competitive moves of the other firms in the industry. Rivalry among existing firms may manifest itself in a number of

ways- price competition, new products, increased levels of customer service, warranties and guarantees, advertising, better networks of wholesale distributors, and so on. In economics, a monopoly industry structure earns the most profit while the “perfect competition” industry structure earns the least. An increase in competitive rivalry among existing firms brings an industry closer to the theoretical ‘perfect competition’.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research methodology is a collective term for the structured process of conducting research. There are many different methodologies used in various types of research and the term is usually considered to include research design, data gathering and data analysis. One's research will dictate the kinds of research methodologies to use to underpin the work and methods to use in order to collect data.

#### **3.2 Research design**

A case study was used for this research. Kothari (1990) described a case study as a careful and complete examination of a social unit, institution, family, cultural group or an entire community. As he argued it delved more into the depth of a study rather than the breadth. This type of study was used for the research as it allowed the interviewer to delve deeper into the issues and motivations of the firm's responses strategies. Also the data collected is normally a lot richer and can be found through other experimental designs. For finding or exploring research questions, a researcher faces lot of problems that can be effectively resolved with using correct research methodology (Industrial Research Institute, 2010). Therefore it is imperative that the correct research design is chosen and used.

### **3.3 Data collection**

This study made use of both secondary and primary data. The primary data involved depth interviews with the relevant persons for the study. Interviews were favored for this type of study because it allowed the interviewer to ask the respondent to elaborate on some of their answers. An interview guide was used to help direct the relevant questions to the respondents. It had open ended questions so as stated above, allowing the respondents to elaborate on their answers if need be. They included the managing director, the sales director, strategy director, and head of marketing, production and human resources. The main advantage of primary data according to Lamb, Hair and McDaniel (2010) is that it will answer a specific research question.

While the secondary data collection involved collection of data from books, journals, newspapers and company literature. According to Kumar (2008), a major advantage of secondary data is the fact that it saves time in terms of the cost of data collection. This is because the information is already readily available.

### **3.4 Data analysis**

The data collected was qualitative and thus it was analyzed using content analysis. Content analysis is defined by Krippendorff (2004) as a research technique for making replicable and valid inferences from texts (or other meaningful matter) to the contexts of their use. Other researchers who have used this approach for their studies are Mwangi (2007), Kathuku (2005) and Njau (2000).

The reason for choosing this methodology was that it did not restrict respondents on answers and had the potential of generating more information with much detail. The

qualitative method was used to uncover and understand what lies behind a phenomenon under study.



## **CHAPTER FOUR**

### **DATA ANALYSIS AND INTERPRETATION**

#### **4.1 Introduction**

This chapter will highlight the analysis, findings and discussion of the research. It discusses the external changes affecting East African Breweries Limited and the strategies they are using to deal with these changes. From the study population target of 6 respondents, the researcher was able to interview 5 out of the target, constituting 83% response rate.

#### **4.2 Strategic planning process**

The study sought to know who made the strategies for the business and how often the strategies were reviewed. According to the interviewees, the company engages in periodic strategic planning. On an annual basis, the senior executives representing every country that Diageo has a subsidiary market have a seminar where they break down the long-term plans into annual objectives. These objectives are then communicated to the various boards that come up with the strategies that will achieve them. Diageo therefore influences the strategy however the board of East African Breweries Limited in this case is responsible for coming up with the strategies to achieve these goals. The interviewees went on to add that the goals were further broken down to each individual employee as part of their contribution to the overall business strategy. The strategies were reviewed every one to two years to ensure that they are still on track.

The study also sought to know if the interviewees consider the company responses to the environmental changes as proactive or reactive. Some of them contend that the strategies are mostly proactive with very few being reactive. As stated by the Managing Director 'no one can be this successful by being reactive'. The company takes a holistic approach in order to ensure that it responds appropriately to the environmental changes. Therefore it ensures from what sort of people it will employ, to how it will produce etc. that these processes will ensure the company is prepared to face the challenges in the environment. Other interviewees particularly from the commercial function felt the company is more inclined to proactive planning but reactive in execution. An example that was given in this regard was the regulatory changes made by the government such as the taxing of keg; the company was not responding fast enough as the feeling was that the company should have anticipated this with the changes in government.

### **4.3 Industry changes and strategies adopted**

The study sought to know if the threat of potential entrants in the brewing industry had been changing. If it was changing, how and what strategies had they put in place to deal with these effects. The interviewees felt that the threat of potential entrants had been increasing as more competitors were now entering the Kenyan market. They argued that one of the accelerators for this is the friendlier government policy that has made entry easier for firms. Another factor that was cited was the growing middle class in the country with more available disposable income which has attracted competitors. For instance there is a growing demand for premium products from these customers who have been exposed to these luxury products. Some of the strategies they said the

company has put in place are constant collection and analysis of consumer insights. This information is used to make various decisions from what are the new consumer trends, motivations, aspirations etc. An example that was given was the desire from consumers for a low carb beer uniquely brewed with natural ingredients led to the introduction of Tusker lite. The growth of premium spirits has also lead the company to invest more in the category as more and more consumers are embracing them. The interviewees felt that the strategies were effective as evidenced by the success of most of the new innovations that they had come up with.

The study sought to know if the bargaining power of buyers in the brewing industry had been changing. And if so how had it changed and what strategies had the company put in place to deal with these changes. According to most interviewees the bargaining power of buyers was not seen as changing in the industry and thus not offering a high risk. The reason they advanced was that the buyers for beer and spirits are represented by alcoholic beverage wholesalers, supermarkets, as well as restaurants and bars which form associations that had not reached a stage where they were powerful enough to bargain as a group. However, according to one of the interviewees, one of the strategies the company was employing in dealing with the bargaining power of buyers was to organize bar owner meeting in the different area covered by the sales people to collect insights on the business trends in the areas, the challenges the bar owners may be facing and any opportunities the company my leverage on. The strategies were seen as being effective because it was giving the bar owners an opportunity to interact with the company and give them feedback on a number of issue or opportunities that they may see.

The study sought to find out if the threat of substitutes was considered a risk to the company. And if so, what strategies had they put in place to mitigate this risk and how effective were they. All of the interviewees considered the threat of substitutes as not a threat to the company. This is because there is no product in any other industry that can compete with the brewing industry in the scale that it is operating in. In addition, the benefits that the consumers derive from alcohol are not comparable to any other product in another industry. It was because of this reason the interviewees stated the company did not have any strategies to alleviate this force.

The study sought to know if the bargaining power of suppliers in the brewing industry had been changing. And if so how had it changed and what strategies had the company put in place to deal with these changes. The interviewees felt the threat of suppliers was moderately high and had been changing. This is because as a producer EABL needs specific ingredients for the beer and spirits making and the number of suppliers were few. Therefore some of the strategies the interviewees gave that the company is doing to deal with these changes were employing the vertical integration strategy. This strategy involved acquisition of businesses that supply the organization with inputs or serve as a customer for the firm's output. The company owns Central Glass Industries (CGI) which produces glass for the alcohol that is brewed. They also intimated that when the need arose, the company imports glassware from Egypt depending on the cost being charged by CGI. They also went ahead to mention that the company also owned East African Malting Limited (EAML) that processed barley for beer production. The firm would contract farmers and provide them with raw materials for growing barley, which the subsidiary processes into malt for production of beer. The company has also

gone a step further to ensure that they are partnering with these barley farmers to ensure they help them acquire whatever they need to ensure a healthy crop harvest. This support they mentioned went from fertilizer, access to credit from institutions to purchase machinery etc. They felt these strategies were effective because the company was able to control some of the major costs that go into their business.

The study sought to find out from the interviewees if they felt there was a change in the intensity of rivalry among the existing firms in the industry. They felt the intensity of rivalry was increasing despite the few players in the industry and their size relative to EABL. Though some opined that the brewing industry did not have evidence of price wars, the company's prices had increased, but that is mostly due to inflation. They gave instances of this rivalry such as competitors investing ahead; that is, they are spending more on bigger billboards, retail merchandise, upgrading of plant and machinery etc. this they said gave the indication that the competition see the level of competition and rivalry intensifying in the future. Some of the strategies that they said EABL were using to deal with this force were continuously innovating new products such as Snapp, increasing investment in sales and marketing by increasing advertising as well as creating new departments in sales which would be more focused on the key customers.

#### **4.4 Discussion**

Porter's model is a useful tool, because it can be used by a firm to understand both the strength of their current competitive position in comparison to the environment they are operating in, and the strength of a position they are considering moving into. Strategic planning is important for any firm that wants to be competitive and thrive in whatever industry it is operating in. EABL is no exception and the study found that the firm does

engage in strategic planning in order to be able to ensure that it is competitive and able to navigate the industry environment it operates in. Using Porter's five forces theory to determine the strategies EABL is employing gave good insight as to what the company considered as immediate or direct threats (due to the risk of the threats) thus their priorities. With the knowledge about intensity and power of competitive forces, organizations can develop options to influence them in a way that improves their own competitive position. As stated by Barney (2007), competitive strategies could be used to "exploit opportunities in the firm's environment with the firm's strength, and neutralizes threats in the firm's environment while avoiding the firm's weaknesses".

The study established that EABL does engage in periodic strategic planning based on the goals and objectives set out by Diageo which owns majority stake in the company. Though, the company ensures that the strategies chosen to achieve these plans take into account the environmental changes and how they will affect their achievement. These strategies are then cascaded to the rest of the company employees. The study also established that most of the interviewees felt that the strategies used by EABL were proactive though to some point some of the tactical strategies were reactive. These findings are similar to Mukiri (2012) who found that EABL had adopted two types of responses namely anticipatory approach and reactive approach.

The study established that the company perceives the threat of new entrants as constantly high risk because of the competition they bring and this was due to friendlier government policies that are encouraging new entrants, opportunity presented by the growing middle class in the economy with extra disposable income to spend. These findings are consistent with Migwi (2012) who found that Mount Kenya Bottlers had been faced with

stiff competitors such as other coca cola franchises, companies manufacturing juices, water companies, EABL's Alvaro. The company is therefore on the right track of constantly checking on consumer trends and motivations so that they are in sync with providing the changing demands. The company also needs to be very meticulous on how it rolls out its programs to ensure that everybody is working in tandem to maintain their lead.

The study established that the bargaining power of buyers is not perceived as a high risk due to their fragmentation but could be growing. Especially with the changes in the governing system, that is county governments, the company needs to be cognizant of the fact that they could affect how their customers are operating. On further probing, the interviewees added that, the strength of the bar owners associations may grow stronger thus giving them opportunity to be more demanding with the presence of the county governments. Therefore there is need to recognize their existence and growing influence which the company already does. The company also needs to build strong and favorable bonds with these associations. They can do this by including them in their corporate social responsibility programs in their areas of operation.

The study established the threat of substitutes is considered moderately low due to the complexity of the need that is being satisfied by the product. This implies that the more complex the needs being fulfilled by the product and the more difficult it is to distinguish differences, the lower the extent of substitution by customers. These findings are consistent with Wandimi (2013) who argued that the threat of substitutes was not a high risk to EABL as the needs that alcohol meets for its customers were varied and could not be substituted. This in essence means that the need that alcohol satisfies for customers

who indulge in it is difficult to substitute with another product. Though there are some non-alcoholic beers, wines etc. that are available. Some of the strategies being used to deal with this threat were introduction of non-alcoholic drinks such as Alvaro which is a malt bases soft drink and Malta Guinness.

The study established that the bargaining power of suppliers in the industry is high thus the company had taken good steps in dealing with it by ensuring that it is operating well in terms of dependability, flexibility, cost, and quality. This is through the use of vertical integration to ensure they have access to glass and malted barley from their subsidiary companies Central Glass Industries and East African Maltings respectively. Through East African Maltings the company works directly with barley farmers to ensure that they constantly have supply of good barley and have an enhanced relationship with them by guaranteeing the farmers always have a ready market. And through Central Glass Industries the company ensures that it has glass available whenever it needs it. These findings are comparable with Narasimhan and Jayaram (1998) who argued that by managing suppliers strategically, an organization is able to improve operational performance, in terms of dependability, flexibility, cost, and quality.

The study established the level of rivalry among companies was moderately high which was evident in their competitors 'investing ahead' though there was no evidence of price wars. And some of the strategies that the company was employing were continuously innovating new products, increasing investment in sales and marketing, leveraging on the company's strength in beer to build more scale in spirits. These findings concur with Njau (2000) who found that due to increasing levels of competition, products had been significantly improved in quality, features and variety. Advertising expenditures had been



dramatically increased. And in market research the firm has significantly increased information gathering on competitors and customer needs.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This final chapter will give us the summary of findings, conclusions, recommendations for policy and practice, limitations and suggestions for further research.

### **5.2 Summary**

The study set out to determine the environmental changes in the brewing industry in Kenya that are affecting EABL and the strategies they have used to respond to these changes. The study made use of both primary and secondary data. The secondary data was collected from newspapers, websites and in-house publications. Primary data was collected through personal interviews with interviewees.

The study found that not all the forces are considered of equal risk to the company with some classified as high risk to others classified as low risk. The threat of new entrants was considered as a high risk due to favorable government policies that were attracting the new entrants. Bargaining power of buyers was not seen as a high risk due to the fact that they were many however, the company was also aware off the growing influence of the bar owner associations being formed in different areas and the potential of their growing influence. The bargaining power of suppliers was seen as high due to the few number of suppliers of the raw materials and their influence in the industry operations. The threat of substitutes was not seen as a risk due to the lack of a substitute product from another industry that would provide similar if not better benefits than alcohol. The level

of rivalry in the industry was also seen to be increasing due to the level of investment that competitors were setting. This can be seen from the level of above and below the line advertising they are investing in, the innovations they are coming up with etc.

In addition the study established that EABL had put in place strategies to address the risks identified such as for the threat of potential entrants, the firm was investing a lot in keeping abreast with the changing consumer trends and needs so that they have innovate products that will meet the consumer needs. The bargaining power of buyers was seen as a potentials threat especially with the new county government structure. However on of the strategies they were using was organizing bar owner meetings in order to keep in touch with their customers and also being members of bar owner associations so that they are aware of opportunities that may lie with this group of people. Strategies that they had put in place to deal with the high bargaining power of suppliers was vertical integration so that they may be able to control some of their costs. Other strategies they had put in place were assisting barley farmers get financing so that they can be assured of consistent barley for brewing. A threat of substitutes was not seen as a risk thus the company did not have any strategy to deal with it. For the rivalry among existing firms, the company was continuously innovating new products such as Snapp, dark extra, Jebel, increasing investment in sales and marketing by having more national consumer promotions and leveraging on the company's strength in beer to build more scale in spirits.

### **5.3 Conclusion**

This study concluded that East African Breweries Limited seems to be doing a commendable job in responding to the environmental changes the brewing industry is going through. It is evident that the firm is conscious of the importance of strategic planning in a changing environment such as the brewing industry in line with Porter's five forces model.

The study concluded that the threats of new entrants was high due to friendlier government policies that are encouraging new entrants, opportunity presented by the growing middle class in the economy with extra disposable income to spend. It also found that the bargaining power of buyers was low but could potentially grow and become a threat in the future. However the fact that the company recognizes this fact will assist it deal with the threat once it becomes imminent. This will be through its strategies such as being in touch with the bar owners associations and recognizing their influence within their larger customers, including them in the corporate social responsibility programs.

The study concluded that threats of substitute products or services was a moderately low risk to the company thus the current spend on advertising and promotion were enough to continue keeping the company's brands top of mind for consumers and remain first choice when faced with a substitute.

It also concluded that the bargaining power of suppliers high in the industry and this was especially because of the limited number of suppliers of the main raw materials used. The rising cost and availability of the raw materials for production make this force a threat.

The company's strategy of vertical integration has helped it be able to deal with this threat. In addition as much as the company owns the subsidiary firms, they still use alternative suppliers when the cost demands it thus helping the brewing side to control their cost of production.

Finally the study concluded that rivalry among existing firms in the industry is moderately high. This could be seen through the actions stated by some respondents of smaller firms investing heavily in advertising and merchandising, upgrading their production capacity by building bigger plants etc. The strategies that the company was employing were continuously coming up with exciting new products that meet the ever changing consumer needs and preferences, increasing investment in sales and marketing, leveraging on the company's strength in beer to build more scale in spirits.

#### **5.4 Recommendations for policy and practice**

East African Breweries Limited has done considerably well and continues to be the leading alcoholic drinks firm in Kenya. However, with the increasing number of competitors entering the Kenyan market, it will need to be more aggressive in its innovations, executions and marketing programs. This is because other than competition coming from local firms, the firms taking root are international and thus they will soon start out spending them in order to get a piece of their market share.

It is also very important for the company to continue engaging the government and its agencies that have the authority and power to make changes in legislation that can drastically affect the operations within the industry such as the alcoholic control act,

imposing tax on keg etc. which we have seen make changes in how the company carries out some of its operations such as advertising of alcohol.

## **5.5 Limitations of the study**

The findings of this research were limited due to some factors arising in the course of the study. The time available for this study was limited and especially in data collection considering the interview method was used to collect data. As some of the interviewees were very cautious about the amount of time they were willing to give for the interview.

The other challenge was on accessing the senior management during the time of study which lead the researcher to having to conduct the interviews with junior staff who may not have had all the necessary details.

However, the biggest challenge in conducting the study was due to the fact that most companies would like to keep their strategies confidential because they would use them to gain competitive advantage. Therefore, the interviewees were not very willing to disclose all their strategies in some cases or give details of how they have implemented their responses.

## **5.6 Suggestions for further research**

This study focused on East African Breweries and the strategies it is using in responding to changes in the brewing industry in Kenya. However, further research can be done on the other major players in the brewing industry in Kenya and how they are responding to the changes.

Another area for further research would be a comparative analysis of the response strategies used by all the players in the industry and if their size determines the atrategic options available to them.

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## **Interview guide**

1. Who makes the strategies for the business?
2. How often are these strategies reviewed?
3. Would you consider East African Breweries response to environmental changes proactive or reactive?
4. Has the threat of potential entrants in the brewing industry been changing?
5. If so, how?
6. If not, what in your opinion has not changed?
7. What are your strategies to deal with these effects?
8. How effective are your actions in dealing with these factors?
9. Has the bargaining power of buyers in the brewing industry been changing?
10. If so, how?
11. If not, what in your opinion has not changed?
12. What strategies have you put in place to deal with this threat?
13. How effective are these strategies in responding to this threat?
14. Has the threat of substitutes been considered a risk to East African Breweries?
15. If so, how?
16. If not, what in your opinion has not changed?

17. What strategies have you put in place to ensure you protect your business and how effective are these strategies?
18. Has the threat of increasing bargaining power of suppliers been changing?
19. If so, how?
20. If not, what in your opinion has not changed?
21. What strategies have you put in place to deal with this risk?
22. Has the level of rivalry among the existing firms in the brewing industry been changing?
23. If so, how?
24. If not, what in your opinion has not changed?
25. What strategies have you put in place to ensure that you retain your competitiveness in the industry?
26. How effective have your strategies been thus far?