COST LEADERSHIP STRATEGY AND SUSTAINABLE COMPETITIVE ADVANTAGE OF NAIVAS SUPERMARKET LIMITED IN KENYA

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DECLARATION

I declare that this is my original work and has not been presented for a degree in any other university or college for examination or academic purposes.

Signed……………………………………………Date……………………………….

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D61/63307/2011

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

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DEDICATION

This research project is dedicated to my wife Caroline Wanjiru and my two sons Joseph Muasa and Ethan Mbatia who have sacrificed to see me through my MBA Studies, my parents the late Joseph Muli and Grace Muli as well as my siblings who have been there to inspire, challenge and support me during the course of my studies.

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ABBREVIATIONS AND ACRONYMS

BOD	Board of Directors
CAK	Competition Authority of Kenya
CEO	Chief Executive Officer
ERP	Enterprise Resource Planning
HELB	Higher Education Loans Board
HRM	Human Resources Manager
ICT	Information Communication Technology
KSFs	Key Success Factors
KYC	Know Your Customer
GMD	Group Managing Director
OD	Operations & Distributions
POS	Point of Sale
ROI	Return on Investment
SMT	Senior Management Team
VAT	Value Added Tax

ABSTRACT

The retail chain industry is undergoing a fundamental structural shift. For many, survival of the retail chain business depends on their ability to develop new business models to enable them adapt to the ever changing environment. The purpose of strategy according to Ramaswamy and Namakumari (1996) is to exploit the unique advantages of the organization in facing the challenges of the environment. The successful corporations make their strategic priority to build their core competencies and long term competitive advantages. To acquire competitive advantage in any market, a firm needs to be able to deliver a given set of customer benefits at lower costs than competitors, or provide customers with a bundle of benefits its rivals cannot match. To realize the potential that core competencies create, a company must also have the imagination to envision markets that do not yet exist and the ability to stake them out ahead of competition (Hamel and Prahalad 1991; Porter 1980). Businesses become successful when they posses some advantage relative to their competitors (Pearce and Robinson, 1997). This paper seeks to examine the effects of cost leadership strategy and sustainable competitive advantage of Naivas supermarket in Kenya. The increasing global nature of competition requires that the firm utilizes all of its valuable resources in order to survive and succeed. Therefore, Naivas as a retail chain needs to identify and build on the cost drivers and key success factors that are sustainable and will set it above other supermarkets in the industry as competition intensifies. The study was carried out through a case study design of Naivas Supermarket where primary data was collected using an interview guide and secondary data obtained from the company website, Industry periodicals and company publications. Personal interviews were done with Naivas Supermarket Human Resource Manager, Operations Manager, Purchasing & Supplies Manager, ICT Manager, Business Development & Marketing Manager and Finance Manager at the company's head office in Nairobi's Sameer Industrial park using an interview guide. Content analysis technique was used to analyze the data. The study found that Naivas supermarket had to a large extend applied the cost leadership strategy on its operations by defining its low and middle income market niche, but more needs to be done to enhance the efficiency of the cost leadership business model. The study further established that the retail chain business environment is moderately changing and is characterized by dominant privately owned firms which inform the kind of competitive strategies adopted. It was found that for cost leadership strategy to be effective, high investment in technology, customer focus, selling a wide range of products, improving employee morale, effective management and good relations with suppliers were all key success factors in actualizing the strategy to ensure a sustainable competitive advantage. The study also established as critical for senior managers to undergo occasional training and scenario exposures to be up to speed with dynamic industry environmental factors. The study recommended further research could be carried out on cost leadership and differentiation strategies in the retail chain business owing parallel strategies often adopted. Additionally there is need to explore on the challenges of applying cost leadership in a controlled market economy.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Cost Leadership is one of Porter's five generic strategies that a business could implement in order to secure a sustainable competitive advantage over its competitors within the industry, thereby earning a higher profit. The five strategies are comprised of three basic classifications: cost leadership, differentiation, and focus, which target either a broad or a narrow market segment (Porter, 1980). According to Porter, a business should focus its resources toward pursuing one of the strategies, as opposed to trying to implement two or more of the generic strategies. If a business pursues more than one strategy, it will become "stuck in the middle" (Porter, 1980). Owing to the inherent contradictions in these strategies, a firm could overextend its resources and fail to instill a seamless business philosophy consistent with one of the generic strategies.

Cost leadership dictates that costs are kept to a minimum, while differentiation depends on the development of unique features and attributes, which often requires increased development and production costs. When a business becomes stuck in the middle, it is at risk of losing its competitive advantage, and becoming unable to differentiate its product or service from a competitor, often resulting in poor financial performance (Porter, 1980).

This study is anchored on the theory of dynamic capability on sustainable competitive advantage. A dynamic capability is a learned and stable pattern of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness (Teece, 2007). The basic assumption of the dynamic capabilities framework is that core competencies should be used to modify short-term competitive positions that can be used to build longer-term competitive advantage. The academic literature on dynamic capabilities grew out of (1) the resource-based view of the firm and (2) the concept of "routines" in evolutionary theories of organization (Teece, 2007).

The study focuses on cost leadership strategy and sustainable competitive advantage of Naivas Supermarket Chain in Kenya. Cost leadership is a concept developed by Michael Porter, used in business strategy which describes a way to establish a competitive advantage. Cost leadership, in basic words, means the lowest cost of operation in the industry that is often driven by company efficiency, size, scale, scope and cumulative experience (learning curve). A *cost leadership strategy* therefore aims to exploit scale of production, well defined scope and other economies thus producing highly standardized products, using high technology (Porter, 1998).

1.1.1 Cost Leadership Strategy

The purpose of strategy according to Ramaswamy and Namakumari (1996) is to exploit the unique advantages of the organization in facing the *challenges* of the environment. A strategy begins with a concern and a burden of how best to use the limited resources of the organization. The successful corporations make their strategic priority to build their core competencies and long term competitive advantages, so that they will serve the real back up for the business level strategies of the business units in the corporation. To acquire competitive advantage in any market, a firm needs to be able to deliver a given set of customer benefits at lower costs than competitors, or provide customers with a bundle of benefits its rivals cannot match.

Cost leadership enables you to establish a competitive advantage in the market. This can help to increase sales and overall turnover and help in any expansion plans. Any cost leadership strategy has to be one in which you are able to achieve the lowest cost of operation per unit of production, compared to others in the same industry. An overall cost leadership strategy concentrates attention on a company's value chain resulting in low-cost products and services. Little attempt is made to differentiate products or services from those of competitors, and a wide net is cast over the entire potential market. By offering the lowest possible cost, these companies gain market share through price alone. The most successful companies are those that limit down costs at each point in the value chain (Porter, 1980).

1.1.2 Sustainable Competitive Advantage

Businesses succeed when they posses some relative advantage to their competitors. Gaining this competitive advantage is the objective of the strategy (Porter, 1998). Corporations which gain competitive advantage in their industries usually adopt specific strategies including innovation, improved processes, higher quality, lower cost and marketing in order to achieve this goal. When a firm has achieved a competitive advantage and successfully raises the barriers preventing imitation by competitors it thereby "resists erosion by competitor behavior" and achieves sustainable competitive advantage (Porter, 1998). Preventing imitation however does not last forever. Thus a firm's ability to delay this eventuality is essential in order to derive the maximum benefit from any competitive advantage.

A company is therefore said to have a competitive advantage if it is the acknowledged leader in product quality, has a different value chain than rivals and has some type of edge over rivals in attracting customers and coping with competitive forces. Whereas there are many routes to competitive advantage, they all involve; building a brand name image that buyers trust, delivering superior value to buyers and building competences and resource strengths in performing value chain activities that rivals cannot readily match and lastly achieving lower costs than rivals and becoming the industry sales and market share leader. The biggest and most important differences among the competitive strategies of different companies boil down to how they go about building a brand name image that buyers trust and whether they have a high risk appetite or are risk averse and secondly the different ways that companies try to cope with the five competitive forces. (Porter, 1998)

When you walk into Naivas, the first thing you will notice is that the prices of the Naivas are much lower than those of any other stores. Why does Naivas offer lower prices? What are its strategies in lowering the prices? The main strategies are efficiency in supply chain management, efficiency in operations and distribution and bargaining power. Naivas is incredibly successful in managing its supply chain, an achievement made possible through applying the most reliable supply chain management system which is very efficient because almost all product data can be tracked to and from the manufacturer, warehouse, and the store shelf. Efficiency in supply chain system has saved Naivas several million shillings as it does prevent losses from faulty product management.

Secondly, Naivas has optimized efficiency in operations and distribution strategies. These OD strategies have helped Naivas achieve low prices by managing its distribution functions from its warehouse at the Sameer Industrial Park Head Office, from where distribution is further done to smaller stores outside of large cities. By bunching stores together in small areas, distribution costs are below average.

Thirdly, through *bargaining power*, Naivas buys its products at rock-bottom prices, exchanges high purchase volumes for low cost while passing the savings onto its customers. The bargaining power of suppliers is weak therefore many suppliers even give in to Naivas's pressure because they depend on the discount retailer for a large volume of their sales. Obviously, suppliers would do what Naivas wanted them to do if they hoped to maintain their sales. Furthermore, the bargaining power of buyers is also weak because there is a very broad base of customers and a significant demand for low prices.

Source: Naivas Digest (Aug – Oct 2013)

Figure 1.1: Naivas strategy in cost leadership

1.1.3 Retail Chain Industry in Kenya

Retail industry forms part of the fragmented industry. Kotler (1993) defines retailing as comprising all activities involved in selling goods and services directly to the final consumer for personal and non-business use. Supermarkets are part of the retailing industry. In Kenya, the supermarket segment comprises of hundreds of small to hyper-markets located across the country but with a bias in major towns and established upcoming middle class estates. A supermarket refers to a large, low-cost, low margin, high volume, self service store that offers a wide variety of food, laundry and other household products (Kotler, 1993). The retail chain industry consists of hundreds of upcoming and established retail chain stores in the urban and peri-urban centers. However, industry is dominated by a few large family owned or corporate retail chain stores such as Nakumatt, Tuskys, Naivas, Uchumi, and Ukwala. These dominant players target cities and other large towns and the ever growing middle class as their market niche. They trade as corporate chain stores each having two or more company controlled outlets, stocking and selling similar line of products in different locations in the same towns or across the country.

Over the last two decades, the retail chain stores in Kenya have witnessed phenomenal growth, however as the industry grows, entry of new players has brought with it stiff competition. Besides, retail customers have become sophisticated in terms of tastes, preferences and choices, informed by forces of globalization, urbanization and improved incomes especially among the emerging middle class. This has altered the nature of market demand which has led to the supermarkets to respond by upgrading their operations to meet the growing demands of the market. To stem competition, attract and retain formidable loyal customer base, some have invested heavily in branding, advertising and modernized their stores as well as broadened and deepened product lines, offering elegance and comfort into the one-stop shopping concept, in ways not experienced there before in Kenya. The retail industry in Kenya is a key sector of the economy and huge contributor to the national economy through employment creation, offering markets for local industries and farmers, and revenue to the Government.

1.1.4 Naivas Supermarket Limited

Naivas Limited was registered as a private limited company on 24th July 1998. Before then, it traded under Rongai Self Service Stores Limited serving mainly Rongai in Nakuru district. It later opened a branch in Elburgon before spreading its wings to Naivasha town. Since 1998, it was trading as Naivasha Self Service Stores Limited before re-branding to the current Naivas Limited in 2007. Naivas Limited is an indigenous company run by Kenyans for Kenya as a family business. Its directors are Mr. Simon Gashwe Mukuha and Mr. David Kimani Mukuha. (Ngige, 2014)

The company started as a small service store with the initial capital being contributed by the family members. It has grown from this, to a chain of stores with branches in Eldoret, Embu, Kapsabet, Kitui, Kisii, Machakos, Mombasa, Nairobi, Naivasha, Narok, Thika to the current 29 branches located countrywide as at January 2014. The company's Head office is situated in Nairobi's Industrial area, Sameer Business Park where its Central Warehouses are also housed. (Ngige, 2014)

Table 1.1: Naivas Supermarket branch outlets

City/ Town	Branch Name	Street Location
Nairobi	Eastgate – Donholm	Outering roundabout
	Green House	Ngong Road
	Hazina	South B Shopping Complex
	Homeground	Ngong road
	Kasarani	Mwiki road
	Kitengela	Nairobi-Namanga road
	Komarock	Kayole Spine road
	Mountain Mall	Thika road
	New Ronald Ngala	Ronald Ngala
	Ngong Town	Ngong road
	Ronald Ngara	Ronald Ngala
	Ruaraka	Baba Ndogo road
	The Mall – Westlands	Waiyaki way
	Utawala	Eastern Bypass
Nakuru	Super center	Old Nairobi road
Naivasha	Kubwa branch	Biashara street
	Ndogo branch	Kariuki Chotara road
Machakos	Mwatu wa Ngoma	Ngei road
	Super center	Next to family bank
Eldoret	Referal	Nandi Street
	Sokoni	Joel Malel Road
Kisii	Kisii	Hospital road
Embu	Kumbukumbu	Kumbukumbu road
Kitui	Kilungya	Kilungya road
Narok	Olegilisho	Olegilisho road
Thika	Flame Tree Mall	Garissa road

Source: Naivas website (http://www.naivas.co.ke) 2014

Plans for additional branches in Nairobi and Garissa are still underway which will be opened before the end of 2014. The company has intense expansion plans that will be strategically implemented over the next few years. Over the years, Naivas Limited has valued its customers and that's why there is great emphasis on the customer service, pricing and quality of goods and service offered by the retail chain. According to the management, they believe in offering the best to their customers at all times. With the growth in the retail industry, Naivas Limited is now the fastest growing supply chain following the top two in the market very closely. Although the economy has been challenging, Naivas continues to offer the best to its target customers who fall in the low and medium earning groups and therefore giving value to its customers even in the stressful times of inflation.

Today, customers have become more sophisticated and are aware of their choices better. With this in mind, Naivas strives to offer quality services through updating its systems with the most efficient networking amongst all its branches and head office operations. The company has also developed a solid relationship with its suppliers who have partnered with them to offer its customers the best prices. The chain's partnerships enable it to pass the price advantage acquired from suppliers to its customers through fair pricing thus negotiating on behalf of its customers because they understand their needs. It does ensure the provision of genuine goods and quality services that customers appreciate and therefore have zero tolerance to counterfeits and endeavor to source for original items from genuine sources.

The company’s staffs undergo in-house training on customer service and complaint handling and also encourage feedback from its customers to continue improving the quality of services provided. The company success is attributed to its dedicated directors, staffs and esteemed customers, with its suppliers and financial partners also playing a big role in growing Naivas Limited from one branch to 29 branches currently.

Some of its partnerships include Chase Bank which powers the loyalty programme and Safaricom which offers M-pesa Pay Goods and services. These partnerships have enabled Naivas to offer its customers ease in secure payment options as well convenience in card transactions. Other services offered at Naivas Limited include after sales service which enables customers to receive service at no extra cost through delivery of goods to the customers’ door step within reasonable parameters. Bulky goods like refrigerators, furniture and other household appliances are delivered to the customer’s house from any of the Naivas branches. For longer distances, a small fee may be charged.

Naivas has invested in a loyalty program where shoppers are issued with a loyalty card (Naivas Reward card) and earn points on subsequent shopping. These points are later redeemed at any of its branches countrywide and customers shop free of charge for the value of the points accumulated / earned. Currently, Naivas has issued over three hundred thousand cards and this is growing every month. In the long run, the chain plans to use the information to study customers’ shopping trends by use of data mining and effectively capitalize on emerging tastes and preferences and adapt accordingly. (Ngige, 2014)

1.2 Research Problem

Cost-leadership strategy seeks to offer the lowest priced offering in a product or service category to customers by continually lowering costs across the board. Striking a balance between price and quality is essential for cost leaders, as there comes a point where decreases in quality are no longer justified by lower prices in consumers' minds. A cost-leadership strategy is a broad approach to business whereby a significant aspect of a company's strategy is an effort to operate as the lowest-cost business in its industry. (Ingram & Kokemuller, 2009).

One of the most important strategies that an organization should take into account is that it has to be a market leader and especially in the retail sector when there is a huge competition from the different large players, you have to be a cost leader so as to drive the competition away. Naivas supermarket chain has used this cost leadership strategy and integrated cost leadership with the Porter’s five forces and has created some sort of a price barrier for the new entries. The new entries would think twice that they have to compete with Naivas when they would like to enter the retail market. Naivas has made cost leadership their philosophy. The slogan “Naivas Saves you Money” has given the company a unique selling point as the consumers are always attracted to buy items from a place where they can get a good value for money proposition.

Various studies have been carried out internationally on different aspects of retail chains; Goldman (2000) Researched on 'Supermarkets in China: the case of Shanghai', Merrilees and Miller (2001) researched on 'Innovation and Strategy in the Australian Supermarket Industry'. Flannery (2006) carried out a research case study on 'Walmart cost leadership strategy', Omar and Sawmong (2007) further carried a research on 'Customer Satisfaction and Loyalty to British Supermarkets'.

Locally, studies have been done to establish how the Kenyan supermarkets have adopted different competitive strategies. Gacheri (2010) researched on Strategic responses by Tuskys supermarket to changing competitive environment; Lagat (2011) researched on 'Strategic responses to changes in external environment by supermarkets in Kenya'. Kariuki (2011) researched on 'Challenges and Survival Strategies of Supermarkets in Nairobi', and Kirochi (2012) further researched on Strategies for sustainable supply chains among supermarkets in Nairobi'.

A search of available literature however, did not find any study that has delved into full impact of cost leadership strategy and sustainable competitive advantage on a local supermarket chain. To bridge the inherent knowledge gap this study seeks to answer the question on the impact of cost leadership strategy and sustainable competitive advantage of Naivas Supermarket Limited?

1.3 Research Objective

The overall objective is to establish the impact of cost leadership strategy and sustainable competitive advantage of Naivas Supermarket chain in Kenya, with emphasis on the following:

i. To establish the effects of Cost leadership strategy in Naivas Supermarket Limited.
ii. To ascertain if indeed the strategy has significantly contributed to a sustainable competitive advantage in the retail chain operations.

1.4 Value of Study

The study is important to the policy makers in the Kenyan retail chain industry and the larger East and Central African region as it enlightens business entrepreneurs on the impact of internal and external environmental factors in shaping the cost effective retail chain businesses. This further sharpens the skills of strategy managers in formulating and implementing sound strategies in order to remain competitive. The findings also help to capture how the retail chain players are reacting to turbulent and sometimes disruptive challenges in the environment and how they are able to gain competitive advantage by quickly adapting to them.

The research also informs decision makers in the government and private sector to upgrade business infrastructure to cater for new and existing supermarket chain business opportunities. It further adds impetus on the industry regulator and competition watchdog that is the Competition Authority of Kenya (CAK), Competitors, Suppliers, ICT Industry and Financial institutions in understanding the management challenges and opportunities inherent in the sector and their development plans.

This also enhances existing theory framework and other important relationships that require further research, such as the relationship between upper market and lower end market segments and how that has impacted on competition. The results of this study are available to researchers and scholars, and form a basis for further research. The students and academics will use this study as a basis for discussions on cost leadership dimension and sustainable competitive advantage. The research is a source of reference material for future researchers on other related topics; it will also help other academicians undertake the same topic in their studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews existing literature in relation to cost leadership strategies and sustainable competitive advantage of firms operating in their surrounding environment with a view of building a body of knowledge relevant to this research work. It analyses various views raised by different authors in relation to the objectives of the study.

2.2 Theoretical Foundation

Business has entered a new era of hyper-competition in which competition is violent and intense. In order to sustain competitive advantage, business firms must continually reconfigure internal resources and capabilities to assume corporate responsibility for adapting turbulent environment. Therefore, dynamic capabilities are raised and defined as a firm's strategy to constantly integrate, reconfigure, renew, and recreate internal and external resources in response to dynamic and rapidly shifting market environments in order to attain and sustain competitive advantage.

Dynamic capabilities can explain how business firms create, define, discover, and exploit entrepreneurial opportunities in complex and volatile external environments in search for a strategic matching of resources and market needs. Especially, a firm's particular dynamic capabilities of stakeholder relationship management can determine the effectiveness of strategic alliance, in return influencing sustainability which has some of implications for corporate responsibility and emerging markets. Many scholars have conducted research on dynamic capabilities and believed that dynamic capabilities are useful (Teece, 2007). Although they believe that dynamic capabilities are positively related to long-term performance, to date researchers have not provided a compelling explanation for the effect of strategic alliance to manage stakeholder on the relationship between dynamic capabilities and sustainable competitive advantage in the domain of corporate responsibility (Teece, 2007).

Source: Dixon S. (2011)

Figure 2.1: Dynamic capabilities life-cycle

2.3 Cost Leadership Strategy and Sustainable Competitive Advantage Relationship

Cost Leadership is a strategy used by businesses to create a low cost of operation within their niche with the primary objective of gaining advantage over competitors; this is achieved by reducing operating costs below that of others in the same industry. Sustainable Competitive Advantage on the other hand is a long-term process that allows a business to remain ahead of its competitors. Unlike short-term advantages, such as being the first to market a new type of product, a sustainable competitive advantage may be built into the fabric of a business, and will help maintain its dominance over years and even decades. The development of such an advantage often takes dedicated effort, the ability to consistently innovate, and even some luck.

According to Porter (1998), when a firm sustains profits that exceed the average for its industry, the firm is said to possess a competitive advantage over its rivals. The goal of much of business strategy is to achieve a sustainable competitive advantage, which can be achieved through cost advantage. Cost leadership strategy is usually developed around organization-wide efficiency, therefore for firms implementing the cost leadership strategy to maintain a strong competitive position and sustain their profit margin for a considerable period of time; they have to place a premium on efficiency of operations in all functional areas (Porter, 1998).

Firms that implement a cost leadership strategy are able to secure relatively large market share by being the lowest cost producers and service providers in their industry or market. Thus, firms implementing the cost leadership strategy can obtain above-normal profits because of their ability to lower prices to match or even below those of competitors and still earn profits. By pursuing low costs, companies not only operate efficiently, but also become an effective price leader, undermining competitors' growth in the industry through its success at price war and undercutting the profitability of competitors, then the firm can offer lower prices, higher quality, or both (Spulber, 2009).

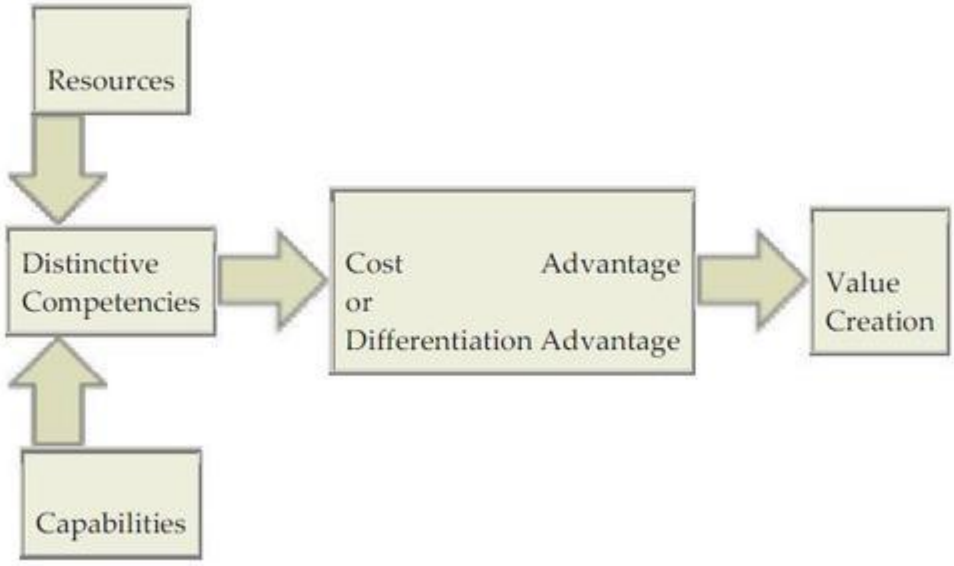
By innovating best-practice organizational processes, with careful monitoring on purchasing expenditures, application of computer and communications technology in a cost-effective way, trimming of overhead cost, and efficient operations, a firm can achieve the cost reduction. Sometimes, cost reduction can also be achieved by outsourcing manufacturing and services when outsider providers offer lower-cost alternatives. With the same quality level but lower cost, the low-cost firm could be able to undermine the price of competing firms. The reason for applying the strategy on cost leadership is to obtain the advantage by reducing economic costs amongst its competitors (Barney, 2002). This strategy highlights efficiency by producing qualified and standardized products or services, at the same time, with economies of scale and experience curve, the firm strives to gain sustainable competitive advantage among its competitors.

Basically, the firm has two major ways to maintain this cost advantage either by controlling the cost drivers, which means that a firm can gain an advantage according to the cost drivers of value activities disclosing a profound proportion of total cost; or by reconfiguring the value chain, in other words, with the adoption of different and more efficient ways to manufacture, promote, distribute and design the product, a firm can also gain a cost advantage (Porter, 1998).

According to (Palepu and Healy, 2008), a firm may produce a relative low profit margin by adopting the strategy of cost leadership. Cost leadership strategy helps firms to produce the standard, high-volume product or service at the most competitive price to customers. By emphasizing on a cost leadership strategy is largely to create higher financial performance for firms competing in emerging economies, as firms can gain a relative advantage because of their lower costs in labor recourse and manufacturing. Furthermore, from the customers' point of view, the strategy of cost-leadership catches the most charming issue (lower price) in emerging economies, offering the product or service to people with low level of disposable income (Caroline, 2008). If a firm can achieve and sustain overall cost leadership, then it will be an above-average performer in its industry provided it can command prices at or near the industry average. At equivalent or lower prices than its rivals, a cost leader's low-cost position translates into higher returns.

A sustainable competitive advantage comes into being through the dynamic interplay between a firm and its external environment, sustainability thus is more accessible in industries with more than one dominant strategy because competitors may not have the same options as the incumbent organization (Montgomery and Porter, 2009). Though, there have been much developments and advancements in the theories revolving around the whole competitive advantage concept, the ideas and work of Michael Porter, that strategies can be classified into generic categories namely, cost leadership, differentiation, focus or a combination has been the most influential over the years compared with any other writers in considering organizational strategies. According to Porter these generic strategies if used efficiently are capable of attaining above average industry results among the competitors.

The theories developed thereafter, though different, but do take Porter's theory, as a base and could be termed more as the result of the evolving cycle of the Porter's strategy. Supportively, Spulber (2009) states that it is very unusual to find managers in today's time who talk about strategy and do not include cost leadership, differentiation and focus in their discussion.



Source: Porter, M.E.Competitive Advantage (2004).

Figure 2.2: A model of competitive advantage

2.4 Challenges of cost leadership strategy implementation

The major challenge with cost leadership strategy is the ability of competitors to produce at a lower cost. The success of competitors in realizing this would put the cost leader at par with the competitors rendering strategy unsustainable. The ability of competitors to imitate a firm's production process and product also renders the strategy unsustainable. This strategy therefore places high demands for organizations to invest in new technology and modern equipment in order to sustain the strategy. Porter (1998), points at another great risk of strategy as the desire to reduce costs which may lead to loss of sight in changes to customer needs.

Montgomery and Porter (2009) identified many other challenges that may hamper a firm's ability to grow new offers. These include financial requirements, technological advancements, regulatory issues imposed by the government and also structural and economic barriers inherent in the industry. Other challenges that affect companies include climatic and ecological concerns brought about by unseen weather conditions and mainly influence firms whose products are seasonal: social factors that focus on values and attitudes of people, customers and employees can equally affect strategy. Changes in technology also affect operations and products and can offer opportunities for improving goal achievements.

To mitigate the above challenges, firms that pursue a similar range of competitive strategies can form a strategic group in response to particular industry conditions facing them. These results from strong economic forces acting easily in an industry that constrains firms from easily switching from one competitive position to another or seen often in firms that face similar economic conditions and constraints. These include selling at the same price and quality reaches, covering the same geographical areas, having comparable product line, breath and emphasizing on the same types of distribution channels. Challenges that occur during the implementation process of a strategy form a significant area of research because even the best strategy would be ineffective if not properly implemented. In spite of challenges on effective strategy implementation having not been widely investigated, issues have surfaced in many studies (Miako 2011).

A strategy implementation is made possible by people. Therefore it is important to select a strong management team with the right personal chemistry and mix of skills as the first implementation step (Thompson and Strickland, 1997). They point out that assembling a capable team is one of the cornerstones of the Organization-building task. Strategy implementation must therefore determine the kind of core management team they need to execute the strategy and the find the right people to fill each slot. Staffing issues can involve new people with skills (Thompson and Strickland, 1997). He further observes that people's intellect, creativity, skills, experience and commitment are necessary towards effective implementation. However selecting able people for key positions remains a challenge to many organizations.

Awino (2001) in the study to investigate effectiveness and problems of strategy implementation of financing higher education in Kenya by the higher education loans board (HELB) identified lack of fit between strategy and structure as factor affecting successful strategy implementation. He cited lack of between strategy and structure; inadequate information and communication systems; and failure to impart new skills.

Aosa (1992) also conducted an empirical investigation on aspects of strategy formulation within large manufacturing companies in Kenya. He observed that lack of compatibility between strategy and culture can lead to high organizational resistance to change and de-motivation, which can in turn frustrate the strategy implementation. According to Spulber (2009), it is the strategy maker's responsibility to choose a strategy that is compatible with the "sacred "or unchangeable parts prevailing corporate culture. This offers a strong challenge to the strategy implementation leadership abilities.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section set out the research methodology that was adopted to meet the objectives stated in chapter one of the study. The research design, data collection, data analysis and presentation techniques were discussed.

3.2 Research Design

A case study approach was adopted for the research since the unit of analysis was an organization. This approach aimed at getting detailed information regarding the unit under observation. According to Kothari (2004) and Yin (1994), the case study approach involves a careful and complete observation of social units and allows the study to retain the holistic and meaningful characteristics of real life events. It emphasizes depth rather than breadth, based on a limited number of events or conditions and other interrelations. Data collected from a case study is considered quite reliable and up to date.

The study analyzed the cost leadership strategy and sustainable competitive advantage of Naivas Supermarket Limited in Kenya. An open ended interview guide (Appendix 2) was used to collect information from selected respondents. The guide was designed with a view of identifying key strategic cost drivers and initiatives that would determine cost leadership strategy and how that contributed to a sustainable competitive advantage.

3.3 Data Collection

The study was based on both Primary and secondary data sources in gathering data for analysis. The primary data was collected using open-ended interview guides while secondary data was obtained from company website, industry publications, published reports, journals and periodicals. The interview guide had open-ended questions with provisions for further probing in order to obtain detailed and comprehensive responses from the respondents. The study targeted the Managing Director and senior managers drawn from different departments comprising of Business Development & Marketing Manager, Human Resource Manager, Finance Manager, Purchasing & Supply chain Manager and ICT Manager. Other respondents were drawn from operational level departments involved the Operations Manager. The interview respondents were expected to corroborate information collected from secondary sources.

The interview guide was divided into four sections for analysis purposes. The first part aimed at collecting demographic data on the individual respondents and the organization. The second part was devoted to exploring the concept of cost leadership strategy and identification of key cost drivers supporting the business strategy. The third and fourth sections were designed to collect information on the long-term plans for the management to ensure a sustainable competitive advantage is achieved.

3.4 Data Analysis

The main method of analysis was content analysis. Krippendorff (2004), defines content analysis as research technique for making replicable and valid inferences from texts (or other meaningful) matter to the contexts of their use. The responses were first reviewed for completeness and consistency and then studied closely to identify the key themes and concepts expressed by the respondents. Particular attention was paid to the choice of words used by interviewees so as to establish the weight of each significant statement. These themes and concepts were analyzed for their relevance to the objectives of the study to provide preliminary overview of how the research question was answered.

The concepts were subsequently interrelated to widen the perspectives within which their meanings were to be understood. Data obtained from secondary sources was contextualized within the meanings. The results of the analysis were presented in a continuous prose in the report highlighted key cost drivers significant to the cost leadership strategy and sustainable competitive advantage at Naivas Supermarket Limited

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CHAPTER FOUR

DATA, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents data findings from the field, its analysis and interpretations there-of. The data was gathered through interview guides and analyzed using content analysis. The data findings were on Cost Leadership and sustainable competitive advantage of Naivas Supermarket Limited. The primary data was collected from the Naivas supermarket senior managers projected in the previous chapter who are members of the corporate strategy in the Organization whereas the secondary data was sourced from the company website, industry publications and company magazines. Data analysis was done through quantification of the results obtained for all the respondents by comparing and summarizing the data to arrive to conclusions.

4.2 Demographic and personal information

This section of the interview guide sought to establish the targeted respondent's academic and professional qualifications. In addition, their management role, years of experience and department headed was to be established. From their academic, professional backgrounds and work experience, the researcher was able to assess their capacity to answer questions on Cost leadership strategy and sustainable competitive advantage at Naivas Supermarket limited. The targeted interview respondents included the Group Managing Director, Human Resource Manager, Finance Manager, Internal Controls Manager, ICT Manager, Business Development & Marketing Manager, Purchasing &

Supplies Manager and Operations Manager. In total, the researcher interviewed 6 out of the targeted 8 respondents thus giving a 75% response rate. The respondents included senior managers from functional, operating and corporate management levels to ensure proper representation of views across the board. Due to ensuing work commitments, the Group Managing Director delegated authority to the HRM to coordinate other managers for the interview.

The respondents were required to mention the period of time they had worked at Naivas Limited. Four (4) of the interviewees had worked for a period of over 10 years followed by one (1) who had worked for a period of between 5 – 10 years whereas the remaining one (1) had worked for less than 5 years. This therefore implied that the majority of the respondents had firsthand experience of the cost leadership strategy and sustainable competitive advantage at Naivas Limited. All the respondents interviewed had university degrees, with three of them having their Masters degrees in addition.

4.3 Adoption and application of cost leadership strategy

The respondents interviewed demonstrated a good understanding of the chain's cost leadership strategy and how it is contributing to sustainable competitive advantage. Respondents further reaffirmed on the importance of correlating the company's strategy and its vision in demonstrating a clear impression of its long term plans. The retail chain's vision to be the leading chain in East & Central Africa was quite impressive, and has been propelled through by ensuring all company staffs understood and shared that vision appropriately.

Sharing of the vision was used to cultivate unity of purpose and provide the direction Naivas Supermarket had committed to take in order to realize its objectives. The respondents further indicated information was shared between top management and middle level managers, top and lower level managers and generally across the organization. Newly employed staffs were also brought to the attention of the company vision and that by sharing one vision for everybody it was possible to rally those charged with responsibilities to focus on achieving that vision. The company's operational, marketing and financing functions were therefore designed to ensure success of the chain's strategy implementation, profitability and growth in the market share in an effort to position the company to be the leading chain in East & Central Africa. The respondents also acknowledged that the company's mission statement of providing world class retail shopping experience to its clients and creating value to its stakeholders was in tandem with its strategy and vision.

4.3.1 Understanding cost leadership strategy

According to the company's standards and the existing framework, cost leadership strategy was defined as Strategy used by businesses to create a low cost of operation within their niche. The use of this strategy was primarily to gain advantage over competitors by reducing operating costs below that of others in the same industry. The respondents informed the researcher that this strategy had been formulated under the backdrop of the low and middle income target market, and this has been achieved through the strategic positioning of Naivas outlets.

The slogan ‘Naivas saves you money’ is synonymous with the cost leadership strategy adopted. The chain has effectively mastered the techniques of adopting the basic costs on its value chain without compromising on the quality of its products nor affecting its profits. This slogan therefore communicates to Naivas customers that they save money by shopping from Naivas, an aspect that is very important to the core target market and even other emerging markets taking into consideration the tough economic times.

When asked what factors were considered when formulating the current strategy, the respondents strongly indicated that focus on the market segment was very crucial and this required understanding the nature of customers within their market niche comprising of the low and middle class shoppers. The emphasis behind these special groups was the numbers with 80% of the urban population falling within these two categories, which implied great economies of scale owing to high volume turnovers. Technically the unit profit margins were less but the high volume purchases resulted in higher profits therefore increasing the shareholder wealth. Optimal customer satisfaction was made possible through competitive prices and routine early payment of suppliers ensured amicable relations coextend with suppliers.

The respondents also took note of new market potential exploits in view of the growing economy and the need for better quality products and services at affordable prices which informed its decision to venture into new markets. Competition was found to be one of the drivers of growth for the company. Naivas according to one respondent sees competition as a fair and healthy game. The supermarket competes as equals with other supermarkets, offering its products and services affordably to satisfy customers and secondly to beat their competition. Another respondent addressed competition factor in view of the existing big market players such as Nakumatt, Tuskys and Uchumi and small players such as Ukwala, Eastmart and several other small outlets.

Respondents further asserted that all these competitors were competing for space and resources in the same market, however Naivas low cost provider strategy placed the chain in the best position to win business of price-sensitive buyers, setting the floor on market price, and still earning a profit. Naivas is also know to support customers by offering a wide range of quality products, exciting Christmas promotions to enhance loyalty and all year round redemption of loyalty points to grow customer base.

A low-cost leadership approach is particularly powerful when; a) The Price competition among rival sellers is vigorous, b) the products of rival sellers are essentially identical and suppliers are readily available from any of several eager sellers, c) When there are a few ways to achieve product differentiation that have value to buyers, d) Most buyers use the product in the same ways, e) Buyers incur low costs in switching their purchases from one seller to another, f) Buyers are large and have significant power to bargain down prices and finally , g)Industry newcomers use introductory low prices to attract buyers and build a customer base. (Bradley and Ghemawat, 2002).

Respondents affirmed that Naivas studied the market well and adopted the above principles which guided its massive growth agenda. Of great importance it was observed that none of the strategy formulation factors mentioned above would be achieved without a great financial resource and competent Human capital.

4.3.2 Impact of Organization structure on cost leadership strategy

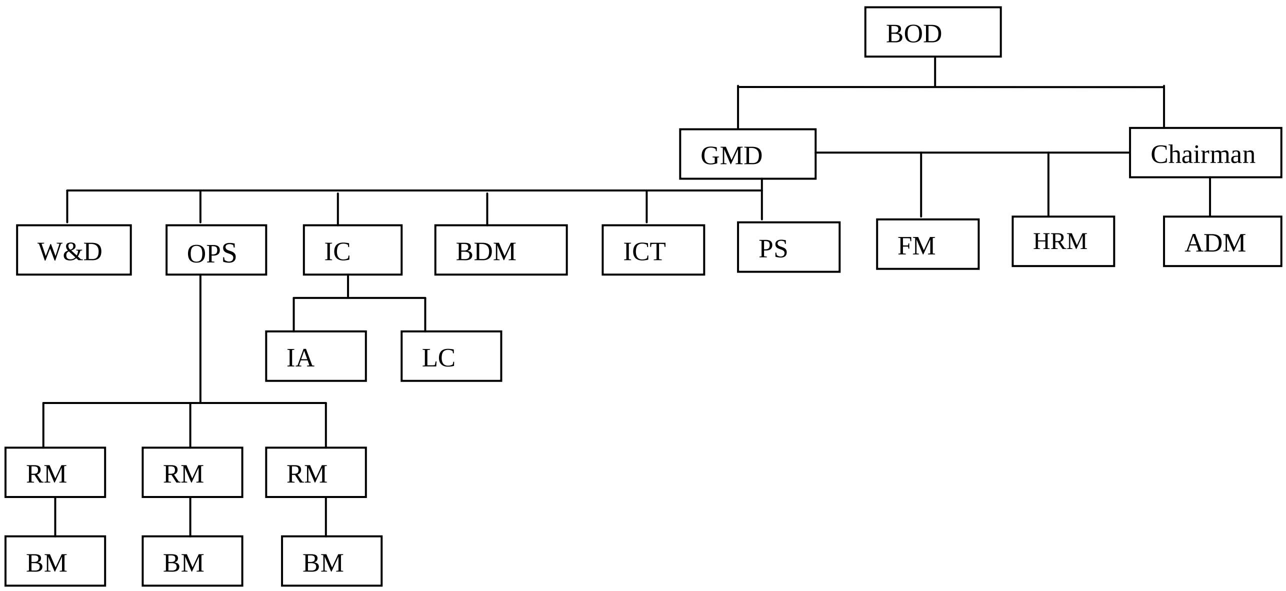
The Naivas Organizational structure is more of an organic structure with managers presiding over operations in their core functional areas. The company is 100% privately owned with a Board of Directors (BoD) controlling the company interests, with the Group Managing Director and Group Chairman being directly answerable to the board. Heads of departments comprise of ICT Manager, Warehouse & Distribution Manager, Operations Manager, Business Development Manager, Purchasing & Supplies Manager and Internal Controls Manager who report to the Group Managing Director, while only the Administration Manager reports to the Chairman with the cross-cutting functions of Finance and Human Resource Managers reporting to the two levels above.

Regional managers are in the fourth level reporting directly to operational manager and in charge of the three regions comprising of Eastern, Western and Nairobi regions. The Eastern region covers Mombasa, Eastern and North Eastern Kenya. The Western Region covers Nyanza, Rift Valley and Western Kenya regions, whereas Nairobi covers Nairobi region and Central Kenya.

The locations within the regions are effectively under the oversight of branch managers who report to the regional managers. Though the company is fully privately owned, the flexibility of the company's structure afforded the managers independence in decision making and actions in support of the strategy and growth plans.

The respondents identified the top management and HoDs who formed the Senior Management Team (SMT) as the group that was charged with crafting the current business strategy. SMT meetings were strategic in nature and addressed strategy review matters, progress of implementation, emerging market opportunities and threats that would impact on the chain's strategic plans.

The different respondents interviewed affirmed on the diverse strategic practices carried out by each department in support of the cost leadership strategy formulation and implementation. The HRM noted the importance of getting competent human capital; here the aspect of performance management, performance evaluation and talent management were very important. The HRM further noted that communication was both vertical and horizontal to the company management and staff and that staff feedback was highly regarded as important and actions taken where facts were ascertained. The Finance Manager further established the importance of strong financial systems and an effective team.



Key

BOD – Board of Directors

GMD – Group Managing Director

W&D – Warehousing and Distribution Manager

OPS – Operations Manager

IC – Internal Controls Manager

BDM – Business Development and Marketing Manager

ICT – Information Communication and Technology Manager

PS – Purchasing and Supplies Manager

FM – Finance Manager

HRM – Human Resource Manager

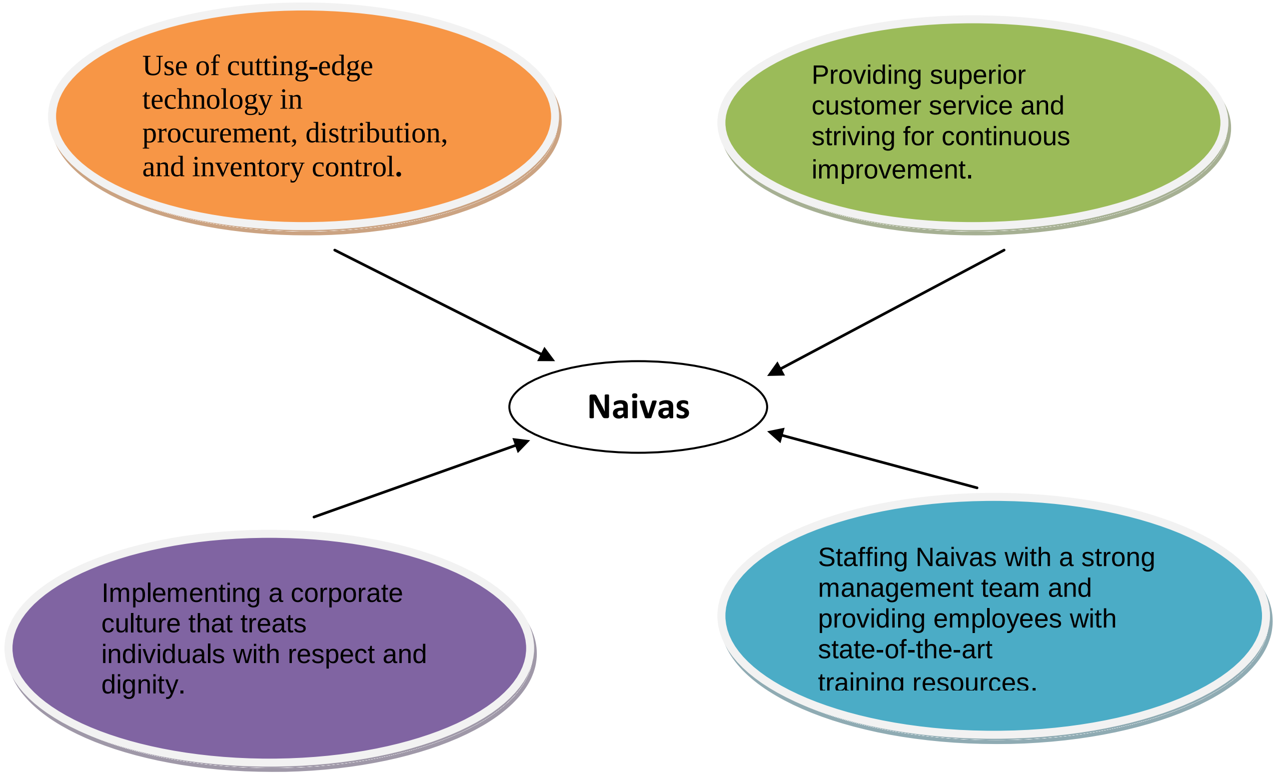
ADM – Administration Manager

Source: Interview with Naivas Human Resource Manager (2014)

Figure 4.1: Naivas Organizational structure

The ICT Manager was critical in ensuring advisory of ICT systems and communication channels that would equip the company with efficient cutting-edge technology and support. The Purchasing & Supplies manager was instrumental in exploring effective cost cutting measures on the value chain by sourcing high quality competitive suppliers and service providers who would conform to the company's cost thresholds.

The internal controls manager put in mechanisms to minimize losses through wastage, shrinkage, shoplifting amongst others and finally the operations manager would ensure the optimal functioning of outlets through the designated branch managers and advice on gaps that could be improved to enhance profitability in the Naivas outlets. All the respondents took note of team work as a means to synergize their collective efforts.



Source: Gateway Supply Chain Practices – Issue 16 (Aug – Oct 2014)

Figure 4.2: Naivas Strategy Execution Process

4.3.3 Creating a sustainable competitive advantage

A company achieves low-cost leadership when it becomes the industry's lowest cost provider rather than just being one of perhaps several competitors with comparatively low costs. In striving for a cost advantage over rivals, managers must take care to include features that buyers consider essential. A low-cost leadership basis for competitive advantage is lower overall costs than competitors. Successful low-cost leaders are exceptionally good at finding ways to drive costs out of their businesses.

A company has two options for translating a low-cost advantage over rivals into attractive profit performance:

Option 1: use the lower-cost edge to under price competitors and attract price-sensitive buyers in great numbers to increase total profits

Option 2: maintain the present price, be content with the current market share, and use the lower-cost edge to earn higher profit margin on each unit sold

Low-Cost advantage over Rival Supermarket Chains, describes Naivas strategy for out-managing its rivals in efficiently performing various value chain activities to gain a low-cost leadership. Respondents further asserted that achieving low-cost edge over rivals was accomplished by performing essential value chain activities more cost-effectively than rivals, and revamping the firm’s overall value chain to eliminate or bypass some cost-producing activities altogether. Customer satisfaction and retention like for any other businesses was a major area of concern.

The competitive nature of retail chain market, with the usual commodities on offer that are lowly differentiated presented a major challenge in customer retention. The customers’ demands, preferences and choices are always changing and becoming sophisticated and therefore to remain competitive, win and retain customers, the supermarket has had to be market oriented, investing heavily on research and advertising.

Respondents further classified competitors into different clusters such as the big chains laying much emphasis on Nakumatt, Tuskys and Uchumi. They were also quick to mention that the most of them focused on different market segments which were not in direct competition with Naivas, though there were selected common grounds of competition. Naivas has a well defined Fresh fruits and vegetables section that also competes directly with the 'mama mboga kiosk' in outlets bordering the slum areas. Such a challenge is mitigated through competitive prices and focus mostly on the lower middle class bordering such environments for instance South B shoppers at Hazina outlet that borders Mukuru-kwa-Njenga slum is a case in point.

According to the respondents, some of the initiatives taken by Naivas to create and sustain a climate for business within the company were quite elaborate and included the adoption of an open door policy to discuss issues as they arise. Training formed an essential pillar in instilling the organizational culture, company values, knowledge and skills that helped define the learning curve from past experiences. Customer focus was another important aspect, and this was geared towards continuous research to know the customers' needs and preferences thus adopting a popular approach referred as 'know your customer' or KYC.

Training on customer service was another approach that was highly regarded as important; this ensured that the supermarket staffs were well equipped to handle customer concerns and grievances professionally without tarnishing the brand name. Innovation was another highly regarded factor in use to ensure the chain stayed above the competition effectively, this was achieved through diversification of products and services offered away from the traditional off-the-shelf products.

Innovation therefore birthed new initiatives such as finger-licking restaurants branded Naivas cafes, internal packaging of products like sugar, rice, milk and other common household basic items and therefore cutting costs further to benefit consumers. There was the introduction of water and milk dispensers systematically that gave customers a variety of cheaper purchases to stay ahead of the competition.

Table 4.1: Price analysis of sampled shopping basket on basic items

	Price analysis of sampled shopping basket on basic items.				
-	**Item**	**Nakumatt**	**Tuskys**	**Uchumi**	**Naivas**
1	Maize meal - Kifaru 2 kgs	108.00	107.00	109.00	100.00
2	Ngano – branded	126.00	127.00	128.00	120.00
3	Milk- branded	40.00	40.00	43.00	38.00
4	Bread – Branded	49.00	43.00	42.00	38.00
5	Sugar - branded 2kgs	270.00	267.00	265.00	200.00
6	Rice - branded 2 kgs	348.00	344.00	340.00	280.00
7	Cooking oil - Bahari 3 Ltrs	530.00	515.00	500.00	495.00
8	Cowboy 1Kg	216.00	216.00	216.00	215.00
9	Aquamist water 18.9 Ltrs	450.00	449.00	449.00	445.00
10	Blueband margarine 500g	165.00	165.00	163.00	165.00
11	Eggs 6 pack	95.00	105.00	115.00	90.00
12	Colgate Herbal 100ml	180.00	180.00	180.00	180.00
13	Pampers - Jumbo pack	1,645.00	1,645.00	1,695.00	1,645.00
14	Kiwi shoe polish 200ml	260.00	260.00	260.00	260.00
15	Omo 1 Kg	245.00	245.00	244.00	242.00
16	Harpic 500ml	350.00	290.00	265.00	230.00
17	Apples 1 Kg	329.00	397.00	465.00	320.00
18	Grapes 1 Kg	700.00	695.00	810.00	649.00
19	French beans 500g	99.00	95.00	91.00	87.00
20	Carrots 1Kg	75.00	85.00	95.00	70.00
	Total shopping basket	**6,280.00**	**6,270.00**	**6,475.00**	**5,869.00**

Source: Shelf prices of Nakumatt, Tuskys, Uchumi and Naivas (October, 2014)

Source: Shelf price survey of Nakumatt, Tuskys, Uchumi and Naivas (October, 2014)

Figure 4.3: Price analysis of sampled shopping basket on basic items.

The table above and chart analysis shows selected basic food items and household goods from the four main competing supermarket chains in Kenya. The analysis clearly demonstrates Naivas supermarket as market leader using the cost leadership strategy, with its basket costing Ksh 5,869 which is clearly Ksh 400 cheaper than nearest option that is Tuskys Supermarket; Nakumatt ranked third while Uchumi ranked forth as the most expensive choice. Therefore this information sampled from the supermarket shelves gives a clear indication as to why the slogan 'Naivas save you money' is the anything to go by as a consumer.

4.4 Successful managing of cost leadership strategy at Naivas

According to the Respondents interviewed, the Business Development unit was charged with spearheading new strategy initiatives. This would require bringing the SMT together to discuss and debate on any such initiatives brought forth and how it would impact on the various departments. The SMT took note of the fact that good strategic plans were deemed effective upon successful implementation and therefore the formulation stage was just the beginning. A lot of market research ensued prior to strategy discussion meetings and this was informed by the prevailing macro-environmental factors which were analyzed using PESTEL framework to assess the political, economic, social, technological, environmental and legal factors.

The events of 2007/8 post election violence dealt a blow on the projected expansion plans which resulted in freezing such plans until the political climate settled. However with the situation normalizing saw a return to the growth plans projected since rebranding the outlet to Naivas Limited from Naivasha Self Service Stores Limited in 2007. This rebranding was designed to be part of the strategic agenda of expanding nationwide ridding out the outlet as a Naivasha outfit only.

4.4.1 Key success factors of cost leadership strategy implementation

Further analysis of the respondents' feedback indicated certain internal factors that were critical in ensuring successful implementation of the cost leadership strategy at Naivas supermarket. The respondents identified marketing of Naivas brand to increase its visibility and positioning, attract new customers, and build and retain customer loyalty as other KSFs in their market realignment and growth programs. In addition, there was choice of convenient locations that focuses on populous city street such as Ronald Ngala and residential neighborhoods in order to attract customers and create competitive advantage. It also impressed on adopting a wide range of product lines to capture the imagination of their customers and satisfy customer's tastes and preferences as well as adoption of technology as an enabler of business and improvement of performance.

The company has plans and aims to expand into neighboring countries. In fact, regional growth plans are central to its long-term strategy. However, it understood that in order to expand it needed a robust and reliable ERP system that could be used as a foundation for critically important business planning, ranging from financials to inventory and supply chain management. The company was using Microsoft Dynamics GP and Microsoft Dynamics RMS, each as a stand-alone system. Up until recently, they had served Naivas well for both financial planning and Point of Sale information.

However, to follow the rapid growth it required systems in which data could be collated from disparate sources and made available from a single source to facilitate business-critical decision making. Naivas evaluated ERP solutions from Oracle, SAP and Microsoft, and decided to implement Microsoft Dynamics AX Retail 2012, running on Microsoft SQL Server. Impax Business Solutions, a Microsoft Dynamics ERP Gold Certified Partner, was in charge of the implementation, as a technology partner that has successfully implemented some of the Microsoft Dynamics solutions previously used at Naivas. The new system provides robust business management capabilities, ranging from financial, warehouse and retail management, as opposed to each of the stand-alone systems that Naivas was using previously. This flexibility to integrate the system modules empowered Naivas and helped in maintaining a competitive edge, and enhanced the use of latest technology.

Dynamics AX Retail 2012 delivered a raft of retail-specific modules that not only helped Naivas to address its immediate challenges, such as an increasing number of outlets and regional growth, but have also contributed to revenue growth. Naivas is now able to view all transactions and information in a simplified and timely manner. Specifically, it has provided a much sharper focus for sales, enabled support for accurate supply chain logistics, provided a transparent overview of financials from orders to invoices, enabled integration with other country operations, and reduced turnover shrinkage by 2.2%. Importantly, it has also provided granular insight into issues such as pilferage and customer behavior. This has enabled the company to take actions that have, to date, reduced pilferage by 3.8% while also providing a platform for customer promotions. The ICT Manager at Naivas Limited, explains the specific impact of the improvements that Microsoft Dynamics brought to the company: “Our annual organic growth is approximately 37%. Microsoft Dynamics AX is adding 7% to this, and we expect this to increase up to 15% in time.” (Ngige, 2014)

The company was keen to understand their competition and abandoned other ineffective strategies that didn’t focus on competitive strategies in an attempt to realign it and grow their market share. Offering quality affordable service to their customers was also found to be another adopted KSF in attracting and retaining customers to sustain competition and enhance growth phases through ensuring that their customers were satisfied with their services and products. Others applied KSFs included ensuring that the organizational culture and structure were adaptable to change driven by strategic growth. This was made possible by ensuring flexibility of how things were done in the company to give room for the cost leadership strategy driven growth.

In addition to these industry key success factors, from the internal organizational perspective, other factors considered critical were the morale of their employees; maintaining a motivated staff was important for the company strategy implementation stages as motivating of employees ensured support for the strategy and enhanced performance. Good staff morale in this case resulted in minimized wastages in form of reduced shrinkage and shoplifting; staffs were even rewarded for arresting shoplifters as way of building loyalty. Staffs were also provided with in-house breakfast and lunch, which not only saved staff costs but also saved company time through minimizing time that would ordinarily be taken for lunch breaks; this also minimized employee sick offs that would be occasioned by food poisoning while seeking affordable lunch in the local food kiosks.

Managing of stakeholder's interests and politics was also considered a key factor for success of the company's strategy implementation plans. Without support of the company's creditors, suppliers, government and other shareholders, customers and employees' and effectively managing of their interests, it would have been difficult to implement the cost leadership strategy. Much time was spent engaging suppliers to ensure the chain obtained very competitive costs for its products. Effort was made to ensure that there were no supplier grievances by honoring a 30 days credit period with respect to all suppliers and services providers as compared to the large competitors whose credit terms could stretch from 60 to 90 days. This aspect was quite encouraging to suppliers through enhanced volumes of goods with a good payment turn-over and therefore acceptable with the bench-marked costs.

According to Naivas Group Managing Director (GMD) Mr. Mukhuha, Competition is stiff. It’s hard fighting with the giants but the chain’s aim is to serve its customers. The company is engaged in reducing its overhead costs in order to keep its clients. With a general target of ordinary Kenyans, the company’s monthly turnover now stands at Sh650 million, or Sh7.8 billion annually. The monthly expenditure for all the branches ranges between Sh75 million and Sh80 million, which includes paying workers, rent, transport, and other costs. Therefore the secret to the successful retail business has been occasioned by a vibrant marketing of the Naivas brand. (Naivas Digest Nov – Jan 2014)

Mukhuha further asserts that the biggest issue with small business entrepreneurs is running their stores and not creating time to run the business. They get so caught up in the day-to-day details that there is really no strategy to map out the future, and to make it happen. The secret is to schedule time to grow one’s business.” According to Mukhuha, the most common mistake that most entrepreneurs make is that they don’t spend enough time marketing their business and often confuse this with advertising. “Advertising is just one part of marketing. People have a tendency to just run an advert because it is something they can take off their checklist. But only 50 per cent of advertising is successful. He further comments that retailers should not only run adverts but should also find other ways to call customers to action," (Naivas Digest Nov – Jan 2014)

4.4.2 Strategy communication

The relationship between managerial competence and ensuring a sustainable competitive advantage of the cost leadership strategy is dubbed as highly effective. There is a professional management team that is effective is executing new strategies and this team embraces team work and robust communication skills with all the stakeholders involved. As highlighted earlier the six (6) respondents interviewed were all holding very prominent managerial positions and have undergone rigorous in-house trainings to equip them with articulate skills to execute their duties. Besides, these managers were of good academic stature, with all having undertaken their undergraduate degrees and three (3) of them with additional post graduate degrees as well.

When asked how the strategy was communicated both internally and externally, the respondents attributed the developing and sharing of a clear strategy and inspiring vision of the supermarket chain. This created effective communication methods across the company that embraced teamwork driven spirit through functional support and cooperation among departments and teams, effective leadership and focus on the company's goals, motivating of staff and improving their morale. Communication therefore adopted both vertical and horizontal style of information sharing. Managers discussed strategic matters as peers and only when solid decisions were arrived at then the information was shared down the ranks through departmental heads. Occasionally training sessions were undertaken especially in the departments or locations that were affected significantly. A case in point was when the Utawala outlet was razed down by fire and all staffs were deployed to other branches paving way for refurbishment of Utawala branch.

In equal measure the respondents rated as highly critical the need of communicating to the external stakeholders comprising the suppliers, creditors, debtors, government and staff unions. Most affected being the suppliers required assurance that the change in strategy would enhance business relations and reduce the lead times; to the supplier, strategic expansion meant more and therefore improvement on the value chain supply functions to meet increased demand. External communication in this case was done through press release on the local dailies, email, phone, and social media and mostly through the company website.

Naivas cost leadership strategy was well thought through long before inception and anticipations were relayed on the possible challenges the strategy might potent. Obviously the strategy would result in low profit margins compared to its larger competitors; however that would be mitigated by the high volume sales turn-over. The fact that high-end market users perceived cheap goods being of low quality was countered through market sensitization with emphasis that Naivas maintained a zero-tolerance on counterfeits and low quality goods. Suppliers also would create disturbance by alluding that competitors were offering better prices, however with constant negotiation good agreements were arrived on cost benchmarks and Naivas committed to pay suppliers within 30 days of supply, a deal which beat all the competitors and built a solid credibility with suppliers. High energy costs would however present challenges on production costs with additional use of backup generator. This was an industry common problem therefore the management put provision to cater for such costs.

4.4.3 Challenges of managing the business environment

Cost leaders tend to share some important characteristics. The ability to charge low prices and still make a profit is challenging and Naivas is not an exception. Product diversity at Naivas supermarket chain has not only attracted business competitors from the large supermarket chains that stock similar good and products, but has also seen competition arise from independent vendors. The chain has restaurants, groceries, home care and household products, fashion and beauty products, entertainment and electronics, bookshops, toys, sports gear, office furniture and many more. As it is there are independent vendors for all these products including 'mama mboga' in the local neighborhoods who competes by selling groceries at better prices. Likewise the other vendors are likely to be flexible by offering discounts and allowing price negotiations, a factor that is not available at Naivas and other supermarkets that are governed by fixed price units.

The supermarkets also keep reinventing themselves to beat competition with new small entrants coming on board and the large players devising mechanisms to increase their market share. A case in point is seen with the annual mega sale promotions for selected Nakumatt outlets, where old stock is offloaded at highly discounted prices, sometimes as low as 50% discounts. With Naivas launching its new ERP system, it has enabled the chain to monitor what was selling more and adjust inventory accordingly so that products found in store matched the local demand. By avoiding overstocking, Naivas did not have to hold periodic sales to shift unsold inventory. Also competition has been played at the level of after sales services, where some supermarkets offer free transport for bulky household products such as fridges, furniture and cookers amongst others, for longer distances and therefore attracting more customers.

Naivas has maintained a careful approach not to get carried away by its low-cost provider strategy and has taken note that aggressive price cutting can end up in lower, rather than higher, profitability. According to the respondents, a low-cost/low-price advantage results in superior profitability only if prices are cut by less than the size of the cost advantage or the added value gains in unit sales are large enough to bring in bigger total profit despite lower margins per unit sold. The management has further taken note of another potential pitfall of not emphasizing avenues of cost advantages that can be kept proprietary or that relegate rivals to playing catch-up.

Another possible pitfall is becoming too fixated on cost reduction. Even if these mistakes are avoided, a low-cost competitive approach still carries risk. A low-cost provider's product offering must always contain enough attributes to be attractive to prospective buyers – low price, by itself, is not always appealing to buyers and Naivas has continually mastered that approach.

When asked how the company status has impacted on the adoption of the business strategy, the respondents attributed that to a number of factors. Of absolute importance, was the access to financial capital as well as a healthy balance sheet. In pursuit of a strong balance sheet, the company has continuously cleared its debts with creditors and suppliers of debt finance in gaining a tidy balance sheet. That way, it has been able to create confidence in investors and other stakeholders.

Adequate financing ensured the effective implementation of new operating system that required overhauling the old Microsoft Dynamics GP and Microsoft Dynamics RMS, each operating as stand-alone systems and replacing with Microsoft Dynamics AX 2012, a fully-fledged ERP system. Human Capital was the second most important factor, and according to the HRM, Naivas preference was recruitment of fresh graduates and building their capacity gradually to take up management roles especially with chains' increased branch network. Staffs therefore had good opportunities for growth and progression that was made possible by the company's effective talent search methods and the ensuing job security.

The increased activities on the chains' outlets has impacted on the day-to-day operations giving way for renovations, change in physical structures of the shops to improve on the company's image outlook. Such activities would be carried out at night to minimize day-time business operations. The company further introduced new and effective payment systems to suit the emerging customer needs, such as the use of mobile money payment methods such as MPESA, Airtel money and Orange money. The ICT systems were also interfaced with the various commercial banks making it easy for customer to pay using their ATM visa cards and credit cards as well.

Competition has been stiff in the retail-chain business both from existing and upcoming retailers. The low barrier to entry implies new small and large competitors are always entering the market. However, for their business go grow, Naivas treats competition as a healthy challenge. Naivas has succeeded in identifying its predominant market niche and put in substantial resources to grow its market, it has also adopted a direct import policy to gain advantage in pricing advantage due to low cost arising from bulk import hence economies of scale which result to competitive advantage from rival firms.

Upon enquiring on the level of resistance to change by the various stakeholders, the respondents affirmed that employee morale was of absolute importance. Resistance to change was noted to be minimal and was achieved through sharing of the strategy, effective communication and effective leadership, thus enabling the company move together in unison. Where conflicts arose, team leaders were called upon to resolve the arising issues. Brainstorming sessions were held to ventilate on the matter. By doing so, resistance to change was brought to bare minimum. The management also embraced good communication methods through the various departmental heads in order to enlist confidence and built competences for the employees. Job promotions, trainings and capacity building initiatives were undertaken to build the Naivas brand loyalty. The respondents further affirmed that the company ensured effective management of internal conflicts of interest to avoid or minimize resistance to the new strategy. It also gave a strong focus to teamwork and cross-functional/departmental cooperation and support in addition to strong leadership through-out the implementation process.

The finance manager further informed the researcher that Naivas pays suppliers within 30 days compared to its competitors who have a turn-around of 60 to 90 days, suppliers therefore highly welcomed the new strategy upon consultative discussions as quicker payments to them meant high sales volume turn-over and quick return on investment (ROI). Being a private company, the investors were initially hesitant that the new cost leadership strategy would be very expensive to implement but accepted it upon learning that the long-term benefits far outweighed the cost of implementation resulting in substantial increase in shareholder wealth.

The company's Organizational culture was rated by the respondents as being quite highly adaptable to change. The company thus ensured that cost leadership strategy implementation benefited from the flexibility of the company's culture to ensure accelerated implementation as resistance was minimal.

Throughout the implementation process, the company maintained a high level of communication throughout the organization as well as with other stakeholders, financiers, suppliers, and customers. The enhanced and effective communication within the company was important to embrace acceptance by the employees, articulate achievements, capture the challenges, indicate direction and elicit more support.

Finally, the researcher sought to establish if there were any other challenges met by Naivas that were not anticipated. The respondents were quick to affirm on a few issues that were beyond the company. The Utawala branch in Embakasi region was gutted down by fire mysteriously and property of unknown value destroyed, which affected the business operations in that area. Also the recent move by the government to introduce value added tax (V.A.T) on basic commodities impacted on the pricing of such commodities. In equal measure the respondents further affirmed that the high energy costs have contributed to the significant rise of doing business.

Insecurity was also highly mentioned especially with perceived threats on shopping malls after the Westgate attack by Alshabaab, the respondents however confirmed that the chain had instituted high level screening and security checks to mitigate insecurity and assure customer safety. Finally the Union presented formidable challenges as they would lobby for staff interests that at times were not factored by the management. The recent 12% salary increase by Nakumatt only meant that the union would put pressure on the management to match Naivas counterparts and to reduce chances of staff demoralization that could trigger staff turnover.

4.5 Discussion and findings

The study findings indicated that Naivas supermarket effectively applied the cost leadership strategy to run its operations. Cost-leadership strategy is a broad approach to business whereby a significant aspect of a company's strategy is an effort to operate as the lowest-cost business in its industry. Cost Leadership strategy further involves the firm winning market share by appealing to cost-conscious or price-sensitive customers. (Porter 1985, Ingram and Kokemuller, 2009). By pursuing low costs, companies not only operate efficiently, but also become an effective price leader, undermining competitors' growth in the industry through its success at price war and undercutting the profitability of competitors, then the firm can offer lower prices, higher quality, or both (Spulber, 2009).

To succeed at offering the lowest price while still achieving profitability and a high return on investment, Naivas has been able to operate at a lower cost than its rivals by continually focusing on the cost drivers. The chain has further managed control over the value chain encompassing all functional groups such as finance, supply/procurement, marketing, inventory, information technology amongst others to ensure low costs. For supply/procurement chain this was achieved by bulk buying to enjoy quantity discounts, squeezing suppliers on price, instituting competitive bidding for contracts, working with vendors to keep inventories low using methods such as Just-in-Time purchasing or Vendor-Managed Inventory.

The strategy and departmental managers have diligently applied the laid down procedures to cap costs on the various cost drivers. Success of the cost leadership strategy could not be guaranteed through adopting a focus on cost drivers and the value chain alone. Other factors such effective use of modern technology, customer focus, selling a wide range of products, improving employee morale, effective management and good relations with suppliers were found to be important key success factors in actualizing the strategy towards a sustainable competitive advantage.

The study findings support Teece (2007) views that a dynamic capability is a learned and stable pattern of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness. According to Barney (2002), the reason for applying the strategy on cost leadership is to obtain the advantage by reducing economic costs amongst its competitors. This strategy highlights efficiency by producing qualified and standardized products or services, at the same time, with economies of scale and experience curve, the firm strives to gain sustainable competitive advantage among its competitors.

Naivas has carefully embraced its learning and experience curves and collectively used those experiences to upscale its business operations in attaining a sustainable competitive advantage. The need to retrain its managers occasionally is of essence in order to cope with the dynamic business environment and ensure a sustainable competitive advantage.

The Naivas chain's management was however quick to mention that the strategy is long-term and a lot of lessons would further be drawn from the chain's learning curve and experience curve. As cumulative output increases, managers continue learning how to optimize the process and workers improve their performance through repetition. In addition the concept of an experience curve attempts to capture both economies of scale and learning effects, in this perspective; economies of scale allow movement down a given learning curve based on current production technology. The successful implementation of this strategy also led to Naivas attaining a sustainable competitive advantage in its market niche.

By adopting cost leadership strategy, Naivas brought on board tools that complemented the effective realization of the strategy such as the new ERP system dubbed Microsoft Dynamics AX 2012 that interfaced all the company's departments, suppliers and banks. Naivas succeeded in capping its costs within the supply chain by ensuring competitive cost negotiation with suppliers and service providers and continues to pursue that. This is further complemented by its direct import policy for goods not sourced locally and therefore capitalizing on the economies of scale.

Flannery (2006) carried out a research case study on ‘Walmart cost leadership strategy’. Naivas business model is similar to that of Walmart and has inspired the Naivas management to grow and develop the chain tremendously. The recent attempt by Massmart Holding Limited of Walmart to acquire a controlling interest at Naivas was a key indicator of the successful operation of Naivas to command international interest by the biggest global retail chain company. Naivas however declined to be bought off buy Walmart citing opportunities were rife to increase the value of its investment. This would have seen the Naivas owners lose control of their self-made multi-million shilling enterprise.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter covers summary of the findings, conclusion of the study as well as the recommendations, and limitations of the study. In addition, it suggests areas for further research and the study implications on theory, policy and practice. The study was based at Naivas Supermarket Head Office in Kenya. It sought to explore the extent of Cost leadership strategy and sustainable competitive advantage of Naivas Supermarket Limited. The study also involved a look at key challenges encountered by the supermarket in its application of low cost strategy.

5.2 Summary of the findings

In exploring whether Naivas supermarkets adopted important cost elements in formulation and implementation of their low cost leadership strategy, the study findings revealed that the Retail Chain considered all relevant cost drivers on the value chain and applied economies of scale through bulk purchases from both local and imported products. They crafted their strategies in such a way that incorporated functional, operational and corporate management levels. The vision, mission and the company strategy initiative was well communicated through its vertical and horizontal domains of the organization structure. Application of KSFs as basis of strategy formulation was found to be critical since KSFs are important components of strategic planning and a means for the organization to focus and validate important activities, initiatives and projects. The company used both industry and organizational KSFs to build and nurture key competences over time in its strategy implementation and growth process. Kotler (2000) observed that organizational success factors arise from the core competences that an organization develops and nurture over time were a source of competitive advantage.

The study revealed that adequate research of market dynamics and identification of its business niche had inherent challenges. To surmount those challenges, the firm required to have the capacity and competences in the strategy implementation. In lieu of such competencies, success for the introduced cost leadership strategy would hang in a balance or the company would need to build such capacity and competencies in the process of implementing the desired strategy. To stem competition, attract and retain formidable loyal customer base, Naivas invested heavily in branding, advertising and modernized their stores as well as broadened and deepened product lines, offering elegance and comfort into the one-stop shopping concept.

5.3 Conclusion

Overall, the Naivas supermarket chain strategy implementation process has been a success as evidenced by the consisted growth. Its prospects of becoming a leading retail chain in East & Central Africa as per the company vision are on course but not yet fully realized. The tremendous growth has seen the chain become the third competing force after Nakumatt and Tuskys which is an indication to go by especially after beating Uchumi supermarket that is publicly listed. Great plans are underway to venture into the larger East and Central Africa business front.

Managing a new strategy is a complex process which requires effective leadership, careful crafting and effective implementation of the strategy. In crafting the cost leadership strategy, it was critical that the company identify the cost drivers and factors that aided performance in order to create a sustainable competitive advantage to position it as a market leader. The firm's strategic managers should be able to identify these cost drivers, embed them in their cost leadership strategy as well as continuously focus their attention on them as they can aid or hinder performance.

Ultimately, managers should have the capacity to anticipate challenges in implementation of the cost leadership strategy. Furthermore, they should be ready to provide answers to these challenges promptly if the cost leadership strategic plans were to succeed in achieving a sustainable competitive advantage. Excelling in one or just a few of the adopted cost drivers is not enough to guarantee success of the strategy implementation. Therefore, excelling in all the identified cost drivers and other KSFs should be the strategic manager's preoccupation throughout the implementation period.

5.4 Recommendations

The following recommendations are made: That in managing cost leadership strategy it would be critical that the strategy managers consider identification and application of those limited performance areas which help them achieve competitive advantage and achieve their goals. They should not only identify and apply those cost drivers, but should continuously monitor the values chain processes and built more on economies of scale.

To identify cost drivers, environmental scanning is critical as those cost drivers exist in the firm's industry and within the organization itself. Hence there is need to scan the environment as such cost drivers could be a source of opportunities as well as challenges to the organization and its strategy implementation. A clear vision for the organization should be formulated and widely shared in the organization pursuing cost leadership strategy. Ultimately resources, leadership and focus on goals, and managing of stakeholders' interests and organizational structure are of mutual benefit to all parties and are very critical for success in strategy implementation.

The management further needs to tap in more on the learning and experience curve to grow to the levels of Walmart that has thrived by adopting a similar cost leadership strategy. Though Naivas has ventured more into the low and medium economic segments, the retail chain business is continually changing with more Kenyans joining the middle and upper income groups. Naivas therefore needs to redefine its strategy without losing its niche market but also tap into the affluent suburbs dominated by Nakumatt and Chandarana supermarkets.

5.5 Limitations of the study

Access to managers for interviews was a herculean task owing to their tight schedules. In addition, the organizational formalities which required communication through switchboard as well as authorized entry mounted either deliberate or unintended barriers implying sometimes it was difficult to gain access to intended respondents for interview scheduling or making appointment follow-ups. Personal visits and email follow-ups were used as strategy to access the managers.

Time factor presented a major constraint as the researcher had to juggle between busy work schedules and frequent visits to Naivas head office in Nairobi's Sameer Industrial park. In addition, delay by the respondents in responding to emails or granting interview opportunities consumed a lot of valuable time of the limited research period. This required putting in more hours at work to compensate for time used away from work.

The research process also had a heavy financial implication taking into account the constrained financial resources during the numerous travel times and engaging research assistants on certain occasions. In addition, this being a case study, it limits generalization of the findings. Thus, the study finding cannot be replicated as a workable solutions/panacea to other firms in similar operational circumstances.

The respondents could also not provide details regarding the cost of financing the growth and neither did the company provide a financial report as it was deemed quiet confidential with limited access. Therefore the researcher relied on the figures mentioned on the website that were devoid of details. It wasn't possible to interview the group managing director and branch managers to get a feel of top level management and the outlets operations respectively. The HRM responded on his behalf and that of the GMD while the Operations Manager gave holistic views of branch operations.

5.6 Area for further study

This study was based on the application of cost leadership strategy and sustainable competitive advantage in a successful organization. Further study on the application of cost leadership and differentiation strategies in retail chain business can be done for comparisons. This is owing to the fact that Naivas has pursued parallel strategies especially targeting the high-end markets which is seen as a long-term plan to secure the various market segments.

Also while Naivas is one among few firms in Kenya that have successfully implemented cost leadership strategy, studies can be done in other companies successful in implementing cost leadership to establish their adopted success factors. A multiplicity of findings on cost leadership on firms which have successfully implemented the strategy would help create a repository of studies from which strategy managers and researchers can benefit from. The researcher also recommends further study on challenges of applying cost leadership in a controlled market economy.

5.7 Implications of the Study on Theory, Policy and Practice

The study further enhances Porter's theory on cost leadership. According to Porter (1980) cost leadership strategy has to be one in which you are able to achieve the lowest cost of operation per unit of production, compared to others in the same industry. An overall cost leadership strategy concentrates attention on a company's value chain resulting in low-cost products and services. To further add on Porter's generic theories, the research findings indicate key success factors (KSFs) are very critical in ensuring the success of cost leadership strategy.

The research undertaking is in agreement with the theory of dynamic capabilities on sustainable competitive advantage. A dynamic capability is a learned and stable pattern of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness (Teece, 2007). The study findings indicate that Naivas has gone through the learning and experience curves which is an important ingredient in attaining a sustainable competitive advantage.

The study is important to the policy makers at Naivas supermarket and the Kenyan retail chain industry as whole in making decisions driven by the industry demands. This further brings insight on the real internal and external factors affecting the retail chain business in Kenya. The findings are important as they inform industry players on how best to react to turbulent and sometimes disruptive challenges in the environment and how they are able to gain competitive advantage by quickly adapting to them. The results of this study are available to researchers and scholars and add value to the existing resource pool.

The study provides insights into application of cost leadership strategy in the retail chain business. In many instances, strategy managers do not fully embrace the concept of KSFs in crafting their cost leadership strategies and programs, resulting in challenges in successfully implementing their programs. The study findings underscore that adoption of KSFs is an important ingredient for any viable cost leadership strategic plan and ensuring a sustainable competitive advantage. Industry watchdogs such as CAK are keenly watching for trends and practices that are inconsistent with competitive business practices and shaping the retail business practice further. A good case in point was demonstrated when CAK halted the takeover of Ukwala outlets by Tuskys limited which violated competition guidelines.

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APPENDICES

Appendix I: Introduction Letter

Sebastian Muasa
P.O. Box 22239,
00400, Nairobi.
Tel. 0733-830778
Email: smuasake@gmail.com

September 22, 2014

Head of Human Resources,
Naivas Limited,
Nairobi

Dear Sir/ Madam,

Re: <u>Request to conduct interviews for my MBA Research Project</u>

My name is Sebastian Mutiso Muasa, a student at the University of Nairobi. I am required to submit a research report on “Cost Leadership Strategy and Sustainable Competitive advantage of Naivas Supermarket Limited”, and I have chosen your company as the focus of my study.

This is to request you to allow and facilitate members of your management team on this subject. This study is strictly for academic purpose and any information provided will be handled with utmost confidentiality. A copy of the interview guide is enclosed for your perusal. With much gratitude, I look forward your invaluable help in my academic endeavor.

Yours faithfully,
Sebastian Muasa

Appendix II: Interview Guide

This study is strictly for Academic purposes at the University of Nairobi. All your responses will be treated with absolute confidence. Kindly answer freely, fully and as truthfully as possible.

Demographic and Personal Information

1. When did you join Naivas Supermarket Limited?

2. What is your current position and department?

3. What is your highest level of education?

The concept of cost leadership at Naivas Supermarket Limited

4. What is the business strategy being pursued by Naivas Supermarket Limited at the moment?

5. What are the key factors considered in formulating the current strategy?

6. Who is involved in crafting the current business strategy at Naivas Supermarket Limited?

7. What are the strategic practices carried out by your department in support of the business strategy in number (3) above?

8. What are some of the initiatives taken by Naivas Supermarket Limited to create and sustain a climate for business within the firm?

Approaches to managing Cost Leadership Strategy at Naivas Supermarket Limited

9. Who is in involved in the leadership of cost leadership strategy at Naivas Supermarket Limited?

10. What are the key success factors in ensuring successful management of Cost Leadership strategy at Naivas Supermarket Limited?

11. What do you think about the relationship between managerial competence and ensuring a sustainable competitive advantage of the cost leadership strategy?

12. How is strategy communicated, both internally and externally?

13. To what extend are challenges in cost leadership strategy implementation anticipated?

Challenges of managing the business environment

14. Who are your business competitors?

15. How does the company's status impact on the adoption of the business strategy in place?

16. What is the level of resistance to change from different stakeholders?

17. What is the impact of Organizational culture on the commitment of employees to the business strategy?

18. Are there any challenges you meet that are not anticipated?

Challenges of managing the business environment

19. Where do you see Naivas Supermarket Limited in the next five years?

20. How do you respond to challenges occasioned by changes in government policies affecting aviation?

21. How do you anticipate Naivas Supermarket Limited's Cost leadership strategy will ensure a sustainable competitive advantage with increased competition?

Appendix III: Authorization 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: 22/09/2014

TO WHOM IT MAY CONCERN

The bearer of this letter SEBASTIAN M. MWASA

Registration No. D61/63307/2011

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
22 SEP 2014
P.O. Box 30197 – 00100, NAIROBI

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

Source: University of Nairobi (2014)