

**A STUDY OF STRATEGY CHOICE AT THE KENYA
PIPELINE COMPANY USING ANSOFF'S GRAND
STRATEGIES MATRIX**

Date: 17th October 2007

By:

Mecha, Peter Manono

**UNIVERSITY OF NAIROBI
KISumu KIBETE LIBRARY**

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

University of NAIROBI Library

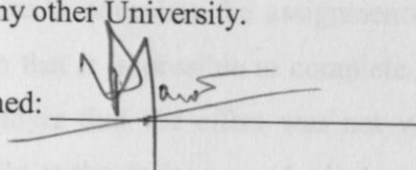


0306431 8

2007

DECLARATION

This management proposal is my original work and has not been presented for a degree in any other University.

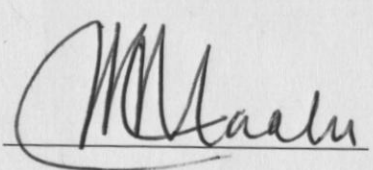
Signed: 

Date: 17th October 2007

Peter M Mecha.

Registration No.: D/61/P/7810/2001

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

Signed: 

Date: 7/11/07

Mr. Jackson Maalu

School of Business,

University of Nairobi

DEDICATION

The long time spent working on this programme. The many sleepless nights that I had to endure to complete the assignments. The challenges faced from my children to show them that it is possible to complete homework. The many times I had to explain to my employer that the effort was not wasted as I will yet complete the programme. And finally to the colleagues who had to confirm the facts in the research. After all I thank the Almighty God for giving me the strength to complete and confirm that with Him all things are possible. I dedicate this project to my loving wife Marion who endured it all, and my children Laura, Larry and Lorna whose challenges were an encouragement.

Pipeline Company Ltd who participated in responding to the project would have been a great help. The comments of KPC who graciously participated in the project would have been a great help. Various assignments would be very helpful.

Finally I thank the Almighty God for giving me the strength to complete the program. Thank you to all who have supported me.

God bless you all.
M. Maatu 7/11/07

TABLE OF CONTENTS **ACKNOWLEDGEMENT**

Declaration 1

Dedication 1

I take this opportunity to thank all those who in one way or another were involved in this project leading to its successful completion.

List of Abbreviations 1

Firstly I wish to thank my supervisor Mr Jackson Maalu for his dedicated efforts, incisive comments and critique through all the stages. Without his superb guidance it may not have been possible to complete the project. Secondly I thank my colleagues at Kenya Pipeline Company Ltd who gave input to the project and especially those who participated in responding to the questionnaire. It was long and tedious but without their comments the project would have taken a different dimension. I thank the Management of KPC who graciously financed the entire program and gave me time to complete the various assignments despite the busy schedules.

Finally I thank the Almighty God for giving me the strength and energy to endure and complete the program. Without His grace it would not have been possible.

God bless you all richly.

1.4 Importance of the Research 12

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction 13

2.2 Generic Strategy Choices 13

2.3 Ansoff's Business Unit Strategy Model 14

2.4 Market Penetration 19

2.5 Market Development 24

2.6 Product Development 28

TABLE OF CONTENTS

Declaration	i
Dedication	ii
Acknowledgement	iii
List of Abbreviations	vi
List of Figures and Tables	vii
Abstract	viii
CHAPTER ONE: INTRODUCTION	
1.1 Background	1
1.1.1 Organizations and Strategy Choice	1
1.1.2 Strategy Choices: Ansoff's Business Unit Strategy Model	2
1.1.3 The Kenya Pipeline Company Limited	4
1.2 Statement of the Problem	9
1.3 Research Objectives	11
1.4 Importance of the Research	12
CHAPTER TWO: LITERATURE REVIEW	
2.1 Introduction	13
2.2 Generic Strategy Choices	13
2.3 Ansoff's Business Unit Strategy Model	14
2.4 Market Penetration	19
2.5 Market Development	24
2.6 Product Development	28

2.7	Diversification Strategies	34
2.8	Summary	46
CHAPTER THREE: METHODOLOGY		
3.1	Research Design	47
3.2	Data Collection	47
3.3	Data Analysis	48
CHAPTER FOUR: ANALYSIS, FINDINGS AND DISCUSSIONS		
4.1	Introduction	49
4.2	Organizational Changes that may Influence adoption of New Strategies	49
4.3	Application of the Ansoff Matrix in Developing Strategy Choices and Challenges Faced	51
4.4	Challenges Faced by KPC in making Strategic Choices	65
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS		
5.1	Introduction	67
5.2	Summary of Findings	67
5.3	Conclusion	70
5.4	Limitations of the Study	70
5.5	Recommendations	70
5.6	Areas for further Research	71
REFERENCES		72
APPENDIX 1		I
APPENDIX 2		II

LIST OF ABBREVIATIONS

IPBL	Industrial Promotions and Building Limited	14
KPC	The Kenya Pipeline Company	15
KQ	Kenya Airways	15
LPG	Liquefied Petroleum Gas	18
MSP	Motor Spirit Premium	19
NMG	Nation Media Group	26
R&D	Research and Development	52
USDT	United States Department of Transportation	55
Table 4.3	Oil Deliveries per Company in KPC System for 2005 and 2006	56

LIST OF FIGURES AND TABLES

Figure 1	The Ansoff Growth Matrix	14
Table 2(a)	Perceived Importance of Four Marketing Strategies to Achieve Growth, by the Firm's Size and Offerings	15
Table 2(b)	Firms Selling Services Only	18
Table 2(c)	Summary of the Observations	19
Table 2.4	Importance of various marketing actions in reaching new markets	26
Table 4.1	KPC Transportation Tariff Schedule per M ³	52
Table 4.2	Product Exported through KPC by Destination	55
Table 4.3	Oil Deliveries per Company in KPC System for 2005 and 2006	56

The research design employed in this respect is a case study and data was collected using an interview guide consisting of structured and unstructured questions. Respondents included the Chief Executive Officer and senior managers selected from the various departments to try and capture the different dimensions that Ansoff's growth strategies may manifest themselves.

Changes that were found to have occurred in KPC that would influence strategy choice included management structure changes adoption of new technologies while infrastructural incapabilities necessitated the need to expand capacity. External changes included proposed new pipelines and discovery of oil deposits in the region.

The study found that market penetration pricing was not used by KPC while the push strategy was adopted by proposed constructions in new locations in the region. Market development was being achieved through capacity enhancement thus bringing the products closer to the customers. New products to be handled by KPC included LPG

ABSTRACT

The Kenya Pipeline Company is a state corporation established by the government of Kenya under the Companies Act and answerable to the Ministry of Energy for the purpose of transporting petroleum products from Mombasa to the hinterland using a pipeline system. A key corporate strategic planning issue arising from its situational analysis is its dependence on a single revenue generating stream. Any interruption to this stream may destabilize the company's activities hence the need to expand its business opportunities.

The four Ansoff growth strategies offer KPC many opportunities to effectively compete in the energy sector and face emerging challenges. The purpose of this study is therefore to determine how KPC is responding to the global and local challenges through the use of the Ansoff's Business Unit Strategy Model. The study would determine to what extent the Ansoff matrix had been applied by KPC to develop strategy choices and also establish the challenges facing the firm in making them.

The research design employed in this respect is a case study and data was collected using an interview guide consisting of structured and unstructured questions. Respondents included the Chief Executive Officer and senior managers selected from the various departments to try and capture the different dimensions that Ansoff's growth strategies may manifest themselves.

Changes that were found to have occurred in KPC that would influence strategy choice included management structure changes adoption of new technologies while infrastructural incapacities necessitated the need to expand capacity. External changes included proposed new pipelines and discovery of oil deposits in the region.

The study found that market penetration pricing was not used by KPC while the push strategy was adopted by proposed constructions in new locations in the region. Market development was being achieved through capacity enhancement thus bringing the products closer to the customers. New products to be handled by KPC included LPG

which is being developed on a “fast track basis”. However product development on the basis of adding new features to existing products was not done in KPC. Although KPC’s mandate allows it to diversify into other areas this was not significantly undertaken although there was potential for it to be developed.

1.1.1 Organizational and Strategy Choice

Challenges faced by KPC in making strategy choices mainly emanated from its being a state corporation hence need to get approvals to undertake the viable options. Business operation challenges based on the staffing levels, corporate governance issues lack of staff empowerment were cited as being major challenges.

The study recommends that KPC makes intensive but strategic use of the four Ansoff’s growth opportunities.

CHAPTER ONE: INTRODUCTION

1.1 Background

1.1.1 Organizations and Strategy Choice

Reinharth, Shapiro and Kallman (1981) define strategy as general programs of action with an implied commitment of emphasis and resources to achieve a basic mission. They are patterns of major objectives, conceived and stated in such a way as to give the organization a unified direction. As suggested by Coulter (2000), strategic management should include a series of processes or steps in which organizational members analyze the current situation, put strategies into action, and evaluate, modify and change these strategies as required.

Competitive environments are changing at an accelerating rate, culminating in a high level of uncertainty. This growing uncertainty is the result of higher customer expectations, the dilution of borders between competitive environments and the move towards global competition. As the level of dynamics in business environments increases, the development of strategies that will differentiate the organization from its competitors becomes the key success factor (Feurer and Chaharbaghi, 1996). As such, one of the primary functions of effective management is to organize and use the available resources in ways, which minimize the impact of environmental threats and pressures on the organization (Steers, 1977).

Organizations must adapt to their environments if they are to remain viable. Smart and Vertinsky (1984), for example, maintain that to maximize long-term effectiveness,

organizations need to develop the capability not only to cope with daily events in the environment, but also to cope with external events that are both unexpected and of critical importance (crises). For many organizations crises are unique and rare events. However, in many industries crises may be a regular feature of corporate life.

Consequently, a central issue in the process of organizational adaptation is not only coping with uncertainty, but also understanding situations where uncertainty can degenerate into a crisis. In the absence of an appropriate strategic choice, changes in the contextual forces surrounding organizations can cause a firm to lose an important customer segment, a cost advantage in its operating process, and, if left unattended for too long, can even threaten the firm's survival. Of particular interest have been the cases where major-often called "radical" or "discontinuous" environmental change occurs, as it is under such circumstances that organizations are most challenged to adapt (Suarez and Oliva, 2005).

1.1.2 Strategy Choices: Ansoff's Business Unit Strategy Model

Strategic choices are decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives (Pearce and Robinson, 1997). These will entail situation analysis, strategy planning, implementation and evaluation. One important strategic choice decision that a firm can pursue to achieve competitive advantage is the intensive growth strategies developed by Ansoff (1965). This product-market grid business unit strategy model is used to determine business growth opportunities. The grid has 2 dimensions, namely product and market, over which four growth strategies can be formed. These are market penetration, market development,

product development and diversification. This model was developed as a viable tool for communications around business unit strategy processes and business growth. (Kotler, 2001)

Market penetration seeks to increase market share for present products or services in present markets through increased marketing effort. In empirical researches geared at assessing the popularity of these four strategies, Njenga (2003) found market penetration to be the most widely recognizable and Cross, Hartley, Rudelius and Vassey (2001) attributed its number one ranking to the fact that it entails firms delving into familiar businesses and markets which will not add to the risk burden. Product development, which entails increasing sales by introducing new products, and improving or modifying present products and services (Kotler, 2001) is largely preferred after market penetration as the firms still have a high degree of control (in research and development and marketing effort (Cross et al., 2001) and has a high recognition rate among stakeholders (Njenga, 2003).

Market development entails introducing present products or services into new geographic areas and is a strategy commonly used by upstarts and multinational firms but was found to be risky if incremental return on investment did not justify the scope of operations (Werner, McDermott and Rotz, 2004). Cross et al (2001) ranked this strategy third owing to its increased complexity. Pearce and Robinson (1997) observe that diversification represents a “distinct departure” from existing operations through acquisition or internal generation of separate businesses that are able to provide synergy with the original firm by counter-balancing strengths and weaknesses of the two businesses. This strategy has been used by the major oil firms in Kenya to increase sales volumes of core products (KPC), 2006).

(Mwindi, 2003) and also by Nation media Group (NMG) to improve performance (Thuo, 2003). It is however avoided due to the high levels of risk involved (Cross et al., 2001).

Limitations such as small market share and limitations of resources and skills limit the strategic alternatives available to small firms (e.g. Carson, 1985) making certain strategic alternatives that avoid direct competition with larger firms and that involve the development of close customer relationships and product adaptation (Storey and Sykes, 1996) more appropriate. Perry (1987) suggests that for small firms the most appropriate growth strategies are therefore product and market-development. Watts, Cope and Hulme (1998) found that small firm owners emphasized on penetration and market development and deemphasized product development. Thus, there is limited support for Perry's hypothesis that product and market development would be favoured strategies.

1.1.3 The Kenya Pipeline Company Limited

There are four key modes of transporting oil, namely, by road, rail, water and pipeline. Oil transportation via road and rail has high unit costs compared to the latter two, partly due to bulk limitations. Transport via water, although widely used, has in the past come under scrutiny owing to environmental concerns caused by spillage and accidents. These have resulted in costly insurance claims and legal tussles for affected firms. Similarly, transport via rail and road exposes the product to risks of adulteration, fire and theft, as well as the attendant environmental pollution resulting from leaks and accidents. Linkage among these alternative modes of product transport is however crucial as it facilitates a seamless transfer of product to the final product consumers (The Kenya Pipeline Company [KPC], 2006).

Cross-country pipelines are the most energy-efficient, safe, environmentally friendly and economic way to ship hydrocarbons (gas, crude oil and finished products) over long distances, either within the geographical boundary of a country or beyond it. A significant portion of many nations' energy requirements is now transported through pipelines. The economies of many countries depend on the smooth and uninterrupted operation of these lines, so it is increasingly important to ensure the safe and failure-free operation of pipelines (Dey, 2001).

From 1970 through the 1990s, the international crude petroleum pipeline industry experienced a period of stagnant growth. In the United States of America, new construction of domestic crude oil pipelines dropped from 1,966 miles in 1980 to 240 miles in 1990. Retirement of old pipelines had outpaced the construction of new pipelines and this trend was also evident on a worldwide scale. World totals of new construction in 1980 equaled 8,129 miles. New constructions totaled approximately 652 miles in 1990 (United States Department of Transportation [USDT], 2001).

Dey (2001) observes that this trend of stagnant growth in the crude petroleum pipeline industry has been attributed to several events. Low oil prices, caused by a surplus or glut in the market for crude oil, had a significant influence on the market for crude oil pipelines. Also, stagnation in the domestic and world economies caused uncertainty and increased risk, especially for industries in which the time between project development and completion is measured over a period of years. Furthermore, political instability led to a period of restructuring, as markets adjusted to such events as the end of the Cold War, the aftermath of the Gulf War and the amalgamation of European countries in the

European Community. Finally, preservation of the environment has become a global concern, and the world's industrialized nations have adopted a more active role in regulating the environmental impact of most industrial activities.

While pipelines are one of the safest modes of transporting bulk energy, and have failure rates much lower than the railroads or highway transportation, failures do occur, and sometimes with catastrophic consequences. A number of pipelines have failed in the recent past, with tragic consequences. In 1993, in Venezuela, 51 people were burnt to death when a gas pipeline failed and the escaping gas ignited. Again in 1994, a 36-inch (914 mm) pipeline in New Jersey failed, resulting in the death of one person and more than 50 injuries. Similar failures also have occurred in the UK, Russia, Canada, Pakistan, and India (Hopkins, 1994). While pipeline failure rarely causes fatalities, disruptions in operations lead to large business losses. Failures can be very expensive and cause considerable damage to the environment.

Projections for domestic and world crude oil consumption reflect modest increases of 5 to 10 percent (USDT, 2001). Though the industry has shown signs of recovery, given the maturity of the crude petroleum pipeline industry and the relative longevity of pipeline once constructed, increases in sales revenue, profits and new construction may become stagnant again after a few years. Consequently, intriguing new uses for old pipeline systems are being explored, including the use of existing pipeline to encase fibre-optic lines used in the telecommunications industry. As new technologies are developed, the crude petroleum pipeline industry has the opportunity to respond in unique and innovative ways (USDT, 2001).

Established by the Kenya Government in 1973, the KPC's vision is to be a world-class petroleum products distribution, handling and supply network in Africa. The KPC plans to achieve this through its mission statement, which is to efficiently, economically, and safely transport, store and deliver petroleum products to customers, while optimizing shareholder value with utmost respect for the environment (KPC, 2006).

In its situation analysis, the KPC identifies potential weaknesses such as effects of previous mismanagement, lack of diversification and limited pumping capacity that may constrain its ability to achieve these goals. Potential key threats include likely emergence of other pipelines (Dar-Mwanza pipeline), increased competition by other modes of transport such as rail, deregulation of the petroleum sub-sector, high capital requirement for line fill, improved alternative modes of transport, evolution of other alternative sources of energy, vandalism of the pipeline and possibility of refined products from Sudan to the region (KPC, 2005).

Strengths that the firm may put to use in pursuit of its mission and goals include availability of strategic facilities such as the storage tanks and quality laboratory, capacity to handle changing product mix such as unleaded Motor Spirit Premium (MSP) and low sulphur diesel, pipeline automation system and wide business mandate for diversification. Emerging potential business opportunities and conditions include pipeline expansion through regional economic communities, availability of oil in Sudan and Uganda, regional economic growth, possible discovery of oil in Kenya, continuation of the conducive political climate for increased business and investment, line-fill resulting in

increased clientele and trading opportunities and possibility of a crude pipeline from Southern Sudan to Mombasa (KPC, 2005).

A key corporate strategic planning issue arising from the situational analysis of both the operating environment and KPC operations is reliance on single revenue generating base; the main source of revenue is the pipeline throughput, which accounts for over 99% of the revenues. Any interruptions to this revenue source would destabilize the Company's activities (KPC, 2005). About 55% of all oil products moved in the country are transported through the pipeline, including virtually all white products, 20% by rail and the remainder by road. The proposal is that KPC should move fast to expand its pipeline operation in the region that will offer the firm opportunities to exploit all the four growth opportunities and reduce its dependence on a single line of business. Given the financial constraints, this could be done in conjunction with other players in and out of the industry.

The four Ansoff growth strategies offer the Kenya Pipeline Company (KPC) many opportunities to compete in the energy sector. Road transportation of oil can be minimized or eliminated if KPC can penetrate its current market by expanding coverage of the pipeline in the country contributing to a significant reduction in fuel costs and boosting economic growth. Additionally, market development would see KPC offer its services to the landlocked countries such as Uganda, Rwanda, Burundi and Eastern Democratic Republic of Congo. Product development will see the firm distributing and selling Liquefied Petroleum Gas (LPG). Finally, the firm could also diversify its operations by forming joint ventures with firms in the communications industry, such as

fibre optic industry, which would make use of the KPC's pipeline Way Leave to lay the cable earning the latter commission fees.

KPC's economic importance to Government and Kenya's economy emanates from both monetary and non-monetary contributions such as its efficient, safe and reliable operations; environment friendliness; reduced road degradation and carnage; improved standards of living; provision of rural electrification; foreign exchange earnings and contributions to Central Exchequer in form of taxes and dividends. Other than commercial ventures, the company's social responsibility programme entails supporting and taking part in agricultural shows. It also has one of the best women volleyball team, which also represents Kenya in International tournaments (KPC, 2006).

1.2 Statement of the Problem

The four growth strategies proposed by Ansoff (1965) offer firms various options in relation to business development management. These are important in today's fast changing world witnessed by globalization, shrinking product life cycles and fast changing consumer needs. Challenges facing the crude petroleum pipeline industry today include strict environmental protection, development of natural gas as a viable substitute and the depletion of crude oil reserves. Since companies have explored and produced more crude, they have also increased capital spending on pipelines. The industry has also experienced stagnant growth, stemming from profound structural changes in both the global market for crude oil and the world economic order (USDT, 2001).

Export of petroleum products to the Great Lakes region continues to decline, occasioned by some of these countries preferring to import white oils from other states due to inefficiencies and high processing fees at the Mombasa refinery. Also, the monopoly enjoyed by the KPC for transportation of motor gasoline, kerosene, and gas oil from Mombasa to Nairobi was abolished and oil marketers became free to negotiate transportation tariffs and mode of transport (Wakabi and Ngunjiri, 2005). Add to these, KPC's over reliance on oil pipeline transport as its main source of revenue, leading to a high-risk exposure. These developments point out the need for development of new and sustainable market opportunities as well as the expansion of existing ones.

Expansion of the oil pipeline locally to increase coverage (market penetration) and to the Great Lakes region to reduce the dumping of export products and generate mutual benefits from increased efficiency in transportation of oil products (Wakabi and Ngunjiri, 2005) would result in exponential market development growth opportunities; there is more reason now than ever to extend the Kenyan pipeline following discoveries of significant quantities of crude in western Uganda as the pipeline will be handy in transporting the oil from there. Product development opportunities, such as moving to LPG handling and Lubricants, will also emerge from these turn of events.

Again, these developments would present the KPC with opportunities to pursue geographic diversification and provide access to resources outside national boundaries, freeing the firm from the limitations of home country resources, including the market failure associated with accessing them. Pipeline firms have pursued unrelated diversification through joint ventures into fiber optic systems, which are entrenched

alongside pipelines (USDT, 2001). KPC can also establish points of presence (POPs) for LPG handling in Kenya and Rwanda (related diversification) and moving into parallel importation, all of which will help lower LPG costs.

Given the aforesaid, the purpose of this study was to determine how KPC is responding to the global and local challenges through the use of the Ansoff's Business Unit Strategy Model. Okiro (2006) investigated the strategy development process and factors influencing strategy development at KPC. There were several researches on growth strategies (Njenga, 2003; Mwindi, 2003; Thuo, 2003; Kiilu, 2004; Mulandi, 2005; Musembi, 2005 and Wanyande, 2006). None of these studies nor any other known to the researcher looked at the application of the Ansoff's Business Unit Strategy Model by the KPC.

1.3 Research Objectives

The study had the following objectives:

- a. To determine the extent to which the Ansoff matrix is applied by the KPC to develop strategy choices.
- b. To establish challenges facing the firm in making strategy choices.

1.4 Importance of the Research

- a. The study was designed to help the KPC management evaluate their growth strategies through the use of Ansoff's Business Unit Strategy Model. The review of literature pointed out new ways of growth strategy formulation and implementation that may be useful for company management to implement.
- b. The research informed interested parties on the direction the KPC is taking in using the Ansoff's Business Unit Strategy Model to manage business challenges brought about by the changing local, regional and global environment. These were investors like banks, individuals and other stakeholders interested in the company's affairs for the purposes of making investment decisions.
- c. Finally, the study contributed to business and academic literature concerned with the use of Ansoff's Business Unit Strategy Model by firms.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature that relate to strategic choice and especially in the perspective of the Ansoff's Grand Strategies Matrix. A synopsis of other studies in this field has been done capturing the rich content of these studies and bringing out how the Matrix is applied in other areas and how it can be applied in the respect of this study.

2.2 Generic Strategy Choices

As earlier outlined, strategic choices are those decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's growth objectives. The strategic choice decisions that a firm can pursue to achieve competitive advantage for growth may be broadly categorized into intensive, defensive, joint venture and combination strategies (David, 2001). These strategies may overlap with each other in many aspects since they are used to pursue the same objective of competitiveness. They are hence not mutually exclusive.

Defensive strategies arise out of the desire by an organization to be secure and have a stable niche in the market place (Johnson and Scholes, 2002). Defensive strategies may be in the form of retrenchment, divestiture or liquidation. Retrenchment entails pruning product lines, closing non-performing businesses, auctioning processes and staff reduction with the aim of reducing costs and focusing on profitability. Divestiture entails selling a division of an organization. It is a common strategy as firms try to focus on

their core strengths and competences by reducing diversification levels. Liquidation on the other hand involves selling all of a firm's assets for their tangible worth.

Joint ventures are also called synergies or corporate alliances (Quint, 2000). Synergy occurs in situations where two or more activities complement each other to the extent that their combined effect is greater than the sum of the parts. Synergism implies the presence of scale, speed, and scope economies. Joint ventures are developments where organizations remain independent but set up jointly owned subsidiaries to capitalize on business opportunities. These are also evident in the so-called "virtual" companies that are temporary networks of independent companies that come together quickly to exploit fast-changing opportunities (Nikolenko and Kleiner, 1996).

2.3 Ansoff's Business Unit Strategy Model

Intensive growth strategies are strategies that require intensive efforts to improve a firm's competitive position and include market penetration, market development, product development and diversification strategies.

These strategies were the result of the Ansoff Growth Matrix developed by Igor H. Ansoff in 1957. Market penetration seeks to increase market share for present products or services in present markets through greater efforts; product development entails introducing new products into current markets; market development seeks new markets for current products while diversification entails moving new products in new markets.

Figure 1 (a) The Ansoff Growth Matrix

		Products	
		Present	New
Markets	Present	Market Penetration Development	Product Development
	New	Market Development	Diversification

H. I. Ansoff: “*Strategies for Diversification*” Harvard Business Review, September – October -1957, p. 113.

Cross et al. (2001) conducted a study where respondents in given industrial firms were asked how important each of four marketing strategies was as they sought new growth opportunities to increase sales and profit. The results in table 2.2(a) indicate that the importance of a specific strategy declines as its complexity increases. Diversification was rated as least important. This could be because it is risky and may sometimes lead to undesirable outcomes such as reduced organizational fit, inconsistencies, loss of focus, and ultimately lower profitability (Zook and Allen, 2001).

Table 2 (a) Perceived Importance of Four Marketing Strategies to Achieve Growth, by the Firm's Size and Offerings

	% Rating It
Marketing Strategy	“Extremely Important”
Market Penetration	48
Product Development	36
Market Development	26
Diversification	21

Cross, J., Hartley, S. W., Rudelius, W. and Vassey, M. J. (2001), Sales Force Activities and Marketing Strategies in Industrial Firms: Relationships and Implications, *Journal of Personal Selling and Sales Management*, 21(3), p 199

Cross et al. (2001) further divided the respondent firms evenly into primarily product-delivery, primarily service-delivery and both product and service delivering firms. Additionally, they split the firms into three sizes based on revenues generated. These are small (less than \$50 million), medium (\$50 million to \$499 million) and large (\$500 million and above).

Among the firms that were primarily involved in product delivery, small firms were likely to pursue market penetration, medium sized firms lean on product development and large firms would largely pursue product development as the desired strategy. Regarding small firms, market penetration and product development emerged as the most popular, supporting Perry’s (1987) hypothesis.

In a related study, Njenga (2003) conducted a survey on the level of customer and staff awareness levels of the various growth strategies pursued by Uchumi supermarkets in Kenya. The market penetration strategies of increasing usage, quantity used, frequency of

usage and innovative new uses of existing products scored highly (above 60% for both groups) implying that customers and staff had a high level of awareness of these growth strategies. Product development strategies (new features and completely new products) had lower awareness levels (17% for staff and 32% for customers).

Njenga concluded that Uchumi would need to educate its stakeholders if it intended to use this strategy. Market development through geographical expansion and targeting new market segments had a high recognition (67% staff; 57% customers) and diversification was fairly well known (37% staff; 46% customers). Cross et al. (2001) found that those firms selling only products are more likely to rely on product development as a means of growth than the other three strategies, when compared to firms selling only services.

From Table 2.2 (b) below, firms selling only services are much more likely than those selling only products to choose market penetration, market development and diversification strategies as a means of growth. Smaller firms are more likely to utilize a market penetration strategy than the three other alternatives, when compared to medium and large firms and finally larger firms are more likely to choose market development and diversification as a means of growth, compared to small and medium firms. Medium firms emphasize on market penetration and product development (Cross et al., 2001).

Firms selling industrial products often look for new market segments or consider adding new product lines. The nature of an organization's sales force can either enhance or impede the likely success of these strategies (Dwyer, Schurr, and Oh 1987). Wotruba and Rochford (1995) found that firms with sales forces specialized by customer were more likely to aim new products at existing customers (product development) while firms with

a sales force specialized by product would focus on new market segments (market development).

Table 2 (b) Firms Selling Services Only

Marketing Strategy	Size of Firm (Annual Sales)	% Firms
Market Penetration	Less Than \$50 Million	46%
	\$50 Million to \$499 Million	70
	\$500 Million and Over	43
Total		55%
Product Development	Less Than \$50 Million	15%
	\$50 Million to \$499 Million	50
Development	\$500 Million and Over	29
Total		32%
Market Development	Less Than \$50 Million	39%
	\$50 Million to \$499 Million	30
Development	\$500 Million and Over	43
Total		39%
Diversification	Less Than \$50 Million	15%
	\$50 Million to \$499 Million	30
	\$500 Million and Over	29
Total		26%

Cross, J., Hartley, S. W., Rudelius, W. and Vassey, M. J. (2001), Sales Force Activities and Marketing Strategies in Industrial Firms: Relationships and Implications, *Journal of Personal Selling and Sales Management*, 21(3), p 199

In a study to determine the extent of the application of Ansoff's growth strategies in the public utility sector in Kenya, Kiilu (2004) found that market penetration and market development were used to a moderate extent, with the former being the more popular. Product development and diversification were used to a small extent. Diversification was least used owing to the risk involved. Kiilu notes that these firms did not show much growth activity probably due to bureaucracy and their public nature.

Table 2 (c) Summary of the Observations

Marketing Strategy	Size of Firm (Annual Sales)	Total
Market Penetration	Less Than \$50 Million	47%
	\$50 Million to \$499 Million	55
	\$500 Million and Over	38
Product Development	Less Than \$50 Million	24%
	\$50 Million to \$499 Million	45
	\$500 Million and Over	43
Market Development	Less Than \$50 Million	18%
	\$50 Million to \$499 Million	26
	\$500 Million and Over	38
Diversification	Less Than \$50 Million	13%
	\$50 Million to \$499 Million	19
	\$500 Million and Over	33

Cross, J., Hartley, S. W., Rudelius, W. and Vassey, M. J. (2001), Sales Force Activities and Marketing Strategies in Industrial Firms: Relationships and Implications, *Journal of Personal Selling and Sales Management*, 21(3), p 199

2.4 Market Penetration

Company strategies based on market penetration normally focus on changing incidental clients to regular clients, and regular clients to heavy clients. Typical approaches use volume discounts, bonus cards and customer relationship management. Market penetration seeks to achieve four main objectives: maintain or increase the market share of current products; secure dominance of growth markets; restructure a mature market by driving out competitors and increase usage by existing customers. A market penetration marketing strategy entails focusing on familiar markets and products. The firm is likely to have good information on competitors and customer needs and is unlikely, therefore, that this strategy will require new investments (Perreault Jr., 1996).

Kiilu (2004) notes that the most popular market penetration strategies among public utility firms in Kenya in order of popularity are: encouraging existing customers to buy more often, creating different usage for products and encouraging switching. Penetration was driven mainly by quality offerings, good customer feedback systems, educating customers on the benefits of products or services on offer and after sales service.

Penetration pricing involves the setting of lower prices to try and increase market share. Such successful pricing strategies may lead to large sales volumes and achieve scale economies that in turn lower total costs lead to lower production costs. Assael (1993) argues that a penetration pricing strategy may also promote complimentary and captive products. The main low priced product is loaded with manufacturer specification accessories that are sold at higher prices. Before implementing this strategy, a supplier must be certain that it has the required capabilities to meet the anticipated increase in demand.

Market penetration pricing may employ the principle that underlies the network effect. Some things are more “valuable” when more people use them. One telephone is useless but many telephones provide a network of considerable value to the user. The network may have more value as it grows and prices are set to reflect the network’s value. This could entail using low entry prices to build network volume and then raise those prices in line with the value of the network to the user or by exploiting the “early adopters” through a premium pricing strategy (Dingkun, 2002).

Market penetration growth strategies are enhanced through franchising. Franchising is where a franchised store is operated by a franchisee, an independent legal entity, which

pays their respective franchisors an initial fee as well as a monthly royalty fee, which is usually specified as a percentage of sales revenue. In addition, franchisees are responsible for investment in the outlet and are expected to closely follow the franchisor's operating norms. An example is the KenChic outlets in Kenya (Njenga, 2003). Mathewson and Winter (1985) justified the existence of franchising as a solution to both financial and managerial constraints for the franchisor. Franchising mitigates the principal-agency conflict by binding the two parties in a mutually beneficial contractual relationship (Norton, 1988).

In a study to evaluate the relationship between firm growth and number of outlets added in the restaurant industry, Sen (1998) found a close relationship between the use of franchising and outlet growth; this was predicted to occur because franchising helps firms overcome various constraints that inhibit growth, by providing a bundle of financial capital and managerial talent. Sen also found that the relationship weakens for larger firms a fact attributed to larger firms having their own resources and thus did not have to depend on franchisees for outlet growth.

Industry differences in the types of constraints faced by franchisors in various sectors should influence the use of franchising to achieve outlet growth. Here, in comparison to the need for financial capital, there is likely to be a greater scope for variation in the requirements for managerial inputs. The prohibitive cost of monitoring managerial activities at dispersed locations within the retail oil outlets may account for the relatively high incidence of franchising in this sector. The impetus to franchise should therefore

reduce in industries where increased clustering or a substitution of labor by automation is possible.

Marketing promotion ensures that customers are aware of the organizations products and have the objectives of increasing sales; maintaining or improving market share; create or improve brand recognition; create a favorable climate for future sales; inform and educate the market; create a competitive advantage, relative to the competition; and improve promotional efficiency. An appropriate promotional mix (a combination of different promotional channels used to communicate a promotional message) must be created in order to meet the promotional objectives of any given promotion strategy. Promotional mix elements include advertising, direct marketing, sales promotion, public relations and publicity, personal selling and sponsorship (Rowley, 1998).

Market penetration can be enhanced through effective promotion. There are two basic promotion strategies, "push" and "pull". The push strategy maximizes the use of all available channels of distribution to push the offering into the marketplace. This usually requires generous discounts to achieve the objective of giving the channels incentive to promote the offering, thus minimizing your need for advertising. The pull strategy requires direct interface with the end user of the offering. Use of channels of distribution is minimized during the first stages of promotion and a major commitment to advertising is required. The objective is to "pull" the prospects into the various channel outlets creating a demand the channels cannot ignore (Paliwoda, 1993).

Co-opetition is another strategy that can be used to penetrate and develop markets. It is "a revolutionary mindset that combines competition and cooperation" (Brandenburger and

Nalebuff, 1996) and is based on the belief that “you can't do it alone” (Moore, 1997) and on the principles of game theory. Contrary to value-adding partnerships, co-opetition includes horizontal collaborative relations as well as competitive relations in vertical and horizontal directions and at the same time. Brandenburger and Nalebuff (1996) suggest therefore the concept of value net, which places a single company between customers and suppliers (vertical dimension) who can be either complementors or competitors (horizontal dimension). The goal is to identify the symmetries between the vertical and horizontal dimension.

1.5 Market Development

According to Tsai (2002) this allows a multi-directional learning and benefiting from one another, while at the same time competing with one another for internal resources and external market shares. An empirical study on co-petition by Bengtsson and Kock (2000) within the Swedish brewery industry revealed that market players cooperated on the “invisible” logistics side (e.g. common packaging standards or return channels) and competed at the “visible” marketing arena (e.g. heavy promotion spending). Similarly, Kotzab and Teller (2003) found out that in the Austrian grocery industry all supply-chain members gained in the same manner by adapting collaborative logistics techniques that allowed economies of scale with competition on the marketing side, where some partners could adapt better solutions than others.

Distribution channel enhancement works very well as a market penetration tool. Werner, McDermott and Rotz (2004) point out three broad options-intensive, selective and exclusive distribution: Intensive distribution aims to provide saturation coverage of the market by using all available outlets. For many products, total sales are directly linked to

the number of outlets used (e.g. cigarettes, beer). Selective distribution involves a producer using a limited number of outlets in a geographical area to sell products. An advantage of this is that the producer can focus on the most profitable outlets. Selective distribution works best when consumers have a preference for a given brand or price and will search out the outlets that supply. Exclusive distribution is an extreme form of selective distribution in which only one wholesaler, retailer or distributor is used in a specific geographical area.

2.5 Market Development

Market development involves introducing present products or services into new geographic areas. This strategy attracts favour in specific industries such as airlines. New markets could be new sub-sectors within the current market-it helps to stay reasonably close to the markets the organization is familiar with and which are familiar with the organization; or new distribution channels or new geographic markets. Moving into completely different markets, even if the product/service fit looks good, holds risks because this will be unknown territory and almost certainly will involve working through new distribution channels, routes or partners. If the company has good market share and good product/service range then moving into associated markets or segments is likely to be an attractive strategy. Finding new markets does not guarantee long-term or short-term profitability but economies of scale in producing for the market will contribute to profitability. Entry barriers may reduce the overall profitability prospect (Proctor, 2000).

As a firm selling industrial products or services tries to find new business opportunities, various marketing mix activities can serve to limit or enhance the chances for success.

These activities include training existing/new sales staff, better use of capacity, hiring additional sales staff, selling present offerings to new markets with present distribution channels, adding new outlets, channels or offices, changing trade promotion spending, and changing advertising spending. In line with this, Cross et al. (2001) found that training the existing/new sales staff is the most important activities, with 37 percent rating it “extremely important”. Further, 22 percent rated hiring additional sales staff as “extremely important”, suggesting that new business opportunities (new products/services and/or new markets) create a situation where more sales hiring and training is likely. Ad spending and trade promotion spending were not viewed as important in this strategy.

To understand how firms find and implement marketing actions to achieve the market development strategy, Cross et al. (2001) in a study to determine the relationships and implications of sales force activities and marketing strategies in industrial firms, asked respondents to rate the importance of various marketing actions in reaching new market segments. Findings include the following:

Table 2.4 Importance of Various Marketing Actions in reaching New Markets

Marketing Action	% Rating it as "Extremely Important"
Different product/service features	32%
Different sales forces	17%
Different prices	16%
Different distribution/service systems	8%
Different trade promotion activities	5%

Cross, J., Hartley, S. W., Rudelius, W. and Vassey, M. J. (2001), Sales Force Activities and Marketing Strategies in Industrial Firms: Relationships and Implications, *Journal of Personal Selling and Sales Management*, 21(3), p 199

The most important feature that they identified was using different products and service features followed by different sales forces. Different trade promotion activities rated the least important. Among public utility firms in Kenya, Kiilu (2004) observes targeting of new customer segments, selling in new national geographical areas, and new distribution channels as the most popular market development strategies. International expansion was the least important form. When approaching new markets, differential pricing was the most used strategy, followed by opening of new outlets, mobile services and finally distribution channels.

Bennett and Vignali (1996) observe the case of Dancall A/S, a Danish telecommunications equipment manufacturer, which was acquired by Amstrad UK in 1993 as a fully owned subsidiary. Dancall A/S entered the United Kingdom market by producing a digital quality, low cost mobile telephone and using a penetration pricing policy-owing to the price competitiveness based on falling entry-level costs, and a wider range of consumer targeted tariffs and services-to enter the market. Extensive advertising consisting of billboards, radio and press was also used to create brand awareness and

encourage trial among its target market of first time, mainly domestic, users. The company also signed co-operation agreements with Philips to use its UK distribution network.

Werner, McDermott and Rotz (2004) observe that market development strategy works well in the early phases of a company's growth. The trouble begins, however, when the firm becomes so big that its returns on incremental investment deteriorate and its earnings plateau as management fails to develop new ways to run the firm. An example of this is Uchumi in Kenya which created successful store formats offering wide product selection and prices within their specific categories growing to national prominence. Unfortunately, its performance as a group fell to crisis levels due to over reliance on rolling out new stores that no longer generate incremental value.

To avoid a plateau of earnings retailers must master two alternative approaches to managing their operations: first develop an accurate understanding of the profitability of the different products they offer in their stores and more know-how on how to position those products to take advantage of high margins and/or turns and second, develop an accurate picture of which customer segments are profitable and an improved ability to position their products and stores to reach those customers. In short, the focus will have to shift to improving the profitability of existing stores (Werner et al., 2004).

Acquisition driven growth is a formidable tool used in entering and developing new markets. The mobile telephony sector is a good example. Anwar (2003) found that Vodafone had an accurate forecast about the wireless industry and capitalized on the globalization of markets and reduced national barriers. European markets, in particular,

witnessed growing demand for mergers and acquisitions partly because of deregulation driven by the European Union. Vodafone saw the opportunities early enough and was able to capitalize on the changing trends, including the privatization of national monopolies. It sought niche-orientated markets where a limited number of wireless operators were willing to invest. Moreover, it developed and introduced the right business and consumer products that made its markets grow.

Milady (2005) in researching on the extent to which Kenya Airways (KQ) has pursued the market development strategy in relation to other growth strategies revealed that this is the main growth strategy that has seen the airline expand its operations in Africa, Europe and the Far East. In Africa, KQ flies to South Africa, Djibouti, Senegal and Mali; in Europe, to Turkey; and in the Far East, to Thailand and China; all the routes were developed at the beginning of this decade. The airline is financially strong and has achieved high operational efficiency.

2.6 Product Development

Product development seeks to increase sales by introducing new products, and improving or modifying present products and services. This requires large research and development expenditure base (David, 2001). It also involves the adaptation of market power whose concept implies that the firm is implementing a corporate mega trend that is generating brutal power in the market. Such a power can express itself in terms of company size, market share, economic power, or high levels of profitability.

Product development is a key source of competitive advantage for individual firms and it is also becoming a competitive strategy for business partnerships (Sivadas and Dwyer, 2000) given that product development partnerships are becoming more successful and thereby more popular. Handfield, Ragatz, Petersen and Monczka (1999) reported that product development projects are significantly enhanced by supplier involvement, especially early in their life cycle. In reporting on a case study of Unisys, Balasubramanian and Baumgardner (2004) found that early supplier involvement is critical to product development success.

The trend toward joint product development partnerships is boosted by increased research and development (R&D) outsourcing. Ettlíe and Sethuraman (2002) find the R&D ratio (R&D spending over sales) to be significantly related to global sourcing. Given these trends, it is not surprising that the issue of outsourcing R&D technology has emerged as a key concern in the automobile industry (Calabrese, 2002). In fact, it may be that technology outsourcing acumen is becoming a core organizational competence in its own right. For example, D'Aveni and Ravenscraft (1994) report that vertical integration of new product development efforts *increases* R&D costs in 12 distinct industries. R&D and customer input served as important parameters in the development of differentiated products to meet different customer needs in the public utilities sector in Kenya (Kiilu, 2004).

In a study to evaluate the efficacy of Technology-Based New Product Development Partnerships, Ettlíe and Pavlou (2006) found that product development partnership dynamic capabilities are significantly related to two critical product development success

outcomes-here measured as the proportion of new products becoming commercial successes (e.g., they return a multiple of the original investment), and superior commercialization (e.g., measured by internal rate of return compared to competitors). Also predicted and found was an inverse relationship between inter-firm product development partnership dynamic capabilities and R&D ratio, implying that high-technology relationships are clearly strained. This they attribute to intellectual property tensions that have increased dramatically in recent years.

Inter-firm product development partnerships proliferate largely because firms often cannot undertake product development initiatives alone, especially when new technology is involved. New products can be jointly developed by suppliers and customers (Adler et al., 1996). Equally, the capabilities of two firms can overlap and some capabilities can actually be duplicated in order to promote learning, coordination and integration.

Cross et al. (2001) observe that a product development strategy may be rated as more important than a market development strategy because it is generally easier to manage and control what is going on inside the organization (R&D and manufacturing) than outside the organization (the sales force and potential customers). They point out that hiring and training of salespeople is critical when addressing new product opportunities. This may seem obvious, but it was rated much more highly than increased advertisement or trade promotion activity. Using a sales force dedicated to specific markets is viewed as very important in industrial marketing. Of course, there may be a cost constraint that limits this option. However, respondents in this study generally viewed it as more

desirable than using a different distribution channel. Separate sales organizations are especially critical when the firm's growth depends on success in new markets.

Product development strategies are successful when built around pivotal products. For example, Dell Computer's successful direct to the customer, build-to-order business strategy design highlights the critical need to identify and examine the strategic initiatives that may impact product strategies. Dell pursues a growth strategy by offering customers next generation products faster than the competition. Management understands computer buyers through Dell's very effective market-sensing processes. Strategic relationships with suppliers and customers offer flexibility in responding to competitive pressures and leveraging partners' distinctive capabilities. Dell positions these capabilities to meet customers' value requirements (Cravens, Piercy and Prentice, 2000).

The business design consists of the organization's customer focus, value proposition and processes that deliver superior customer value and generate profits (Slywotzky, 1996, p. 4). Products and technology are integrated into the design through the network of activities and relationships that comprise the organization. Dell Computer offers new products and employs advanced technology, but the direct, build-to-order business design is the fundamental driver of the company's innovation process. In their study, Cravens et al (2000) observe that effective new product development processes are imbedded in the business designs of successful firms. They reveal that Hewlett-Packard's process for developing its inkjet printer was utilized to design and market a portfolio of products based on the initial printer platform.

Innovation results from leveraging the organization's new product processes to generate and evaluate new ideas, design promising product concepts, develop market entry strategies, and implement and manage the strategies. Cravens et al (2000) also note that most new products are improvements and extensions of existing product lines although in certain situations new technologies may offer threats to the firms serving an established market. For example, Polaroid's traditional film processing is threatened by electronic imaging technology. The company's distinctive capability (instant photos) can also be achieved through the use of digital cameras. The danger is becoming focused on improving and extending existing product lines, and not recognizing change pressures. The business design should have the capability to recognize and proactively respond to change pressures.

When a disruptive technology enters an established market it often occurs at the low end of the market (Christensen, 1998). However, the new technology may change the marketplace so that the low quality products compete with existing products. Consider, for example, Internet telephone services. Initially, transmission quality was poor. However, improvements were made, and now the costs are much lower than conventional telephone services. All that the user needs is a credit card and a personal identification number. While not likely to replace existing phone services, Internet services will attract revenues from conventional services. Telecom firms like Deutsche Telekom countered the threat by offering Internet telephone services.

Effective organizational processes are essential to new product success, yet innovation is the growth driver. New products expand market position in existing markets and provide

avenues for entering new markets and may range from new-to-the-world innovations to line extensions of existing products. The initial development of fiber optics cable by Corning is an example of a totally new product. A really new product offers an attractive opportunity, but also involves more risk and expense than the line extension. Executives should look to the following issues to examine their organization's attitude and progress toward growth: advances toward improving organizational effectiveness by identifying new capabilities created; new products for expanding market position in existing markets; and new products for gaining position in new markets.

Product development is the growth strategy where a business aims to introduce new products into existing markets. This strategy may require the development of new competencies and requires the business to develop modified products that can appeal to existing markets (Perreault Jr., 1996). Developing new products may entail getting strategic partners who are looking for a distribution partner with a large market share they can use to channel their own products and services.

Product development may result in completely new products or cost reductions on existing products. Organizations are increasingly concentrating on responsiveness and flexibility through product innovation to serve current and emerging market needs. Market research provides a means for understanding the consumer purchase decision and anticipating consumer behaviour, thus forming a basis for new product development (Kotler, 2001). Product development methods and models include focus groups, limited rollout, concept tests, conjoint analysis, Delphi technique, quality function deployment, product life cycle methods.

Ways in which focus group interviews are used in product development include basic need studies for product idea creation, new product idea or concept exploration, product positioning studies, advertising and communication research and background research on consumer's frame of reference. Test marketing, involves duplicating a planned national new product marketing program in limited geographic areas to determine market acceptance and test alternative mixes (Tull and Hawkins, 1993).

Conjoint analysis assesses perceptual position in the market and the optimal combination of product attributes (Weiner, 1994), and predicts consumer preferences for a new product. Product life cycle models are used to determine when existing products should be replaced with newer, more profitable products. When a product moves into the decline phase, profits decrease and it must be replaced with a new or revised product.

The Delphi technique is a method for forecasting new product sales utilizing a panel of experts and an estimation and evaluation cycle that repeats until a consensus is reached (Tull and Hawkins, 1993). This strategy provides a means of estimating the sales potential of new products having longer product development cycles. In this type of research, others predict what consumers will desire, while consumers have minimal, if any, direct input. Intermediaries such as retail buyers and sales representatives also provide input to product development via opinions regarding products in development.

2.7 Diversification Strategies

Firms may diversify into new products and/or foreign markets when they face maturing markets at home or seek to reduce overall risk exposure (Smith and Cooper, 1988).

Proponents of the agency theory argue that some opportunistic managers diversify to increase their compensation or to reduce employment risk (Hoskisson and Turk, 1990).

Based on the transaction costs economics, Hill and Hoskisson (1987) suggest that when market transactions are uncertain, diversification serves to internalize a firm's unique assets within its boundary.

Analogously, the internalization theory (Buckley and Casson, 1976) maintains that a multinational firm represents a superior arrangement for cross-border production when the benefits for common ownership of domestic and foreign activities exceed the transaction costs in using the market. Premised on the argument that firms' unique resources are particularly crucial (Penrose, 1995), some researchers suggest that firms diversify to reap synergistic benefits (Rumelt, 1974) or to maximize monopolistic advantages over firms in foreign countries (Hymer, 1960).

Diversification has often been viewed as an essential vehicle for growth and improved performance and is regarded as a way for firms to reap the benefits of scale and scope required to achieve rapid growth rates (Chandler, 1990). Similarly, the wide diversification of South Korean giant firms, the chaebols has been widely recognized as the factor that enabled them to attain their enormous size and play a leading role in their country's astonishing economic growth over the past three decades (Amsden, 1998).

However, Kiilu (2004) points out that Kenya's public sector institutions shun diversification owing to the increased risk. A study conducted by Mwanzi (1992) on the impact of diversification on performance in Kenya's life insurance industry found that there was no statistically significant difference in the financial performance of companies

that exhibited high, medium and low levels of diversification. So diversification, in this case did not enhance firm performance.

In another study whose objective was to investigate and document the experiences of the Nation Media Group (NMG) with diversification, Thuo (2003) reveals that diversification did enhance performance of the media giant. NMG is heavily diversified. Internal diversification by NMG has seen the creation of 4 divisions namely, the broadcasting, newspapers, marketing and publishing and carriers divisions (that offers courier services). Regarding external diversification, NMG is in the properties market with interests in the Industrial Promotions and Building Limited (IPBL) and has diversified geographically in Uganda and Tanzania through purchasing major stakes in the leading media houses in these countries. However, diversification has improved performance in conjunction with factors such as operational efficiency. Lack of a controlling interest in IPBL is notable in explaining the poor performance of this investment in relation to other business units.

2.7.1 Related Diversification

This section examines the two variants of related diversification, namely, vertical and horizontal diversification strategies. Vertical integration has been variously defined as a form of internalization, "a range of activities involved in producing and selling products which take place within the firm rather than within supplying firms" (Eckard, 1984, p. 57). In a similar vein, Temin (1988) suggests that vertical integration is the elimination of contractual and market exchanges, and the substitution of internal exchanges within the boundary of the firm. Vertical integration has also been defined as a pattern of

diversification that combines lines of business in a way that allows a company to use the outputs of one line of business as inputs for another line of business (Harrigan, 1985).

Vertical integration may occur because of transaction costs, agency problems, increased market power through control of scarce resources, creation of barriers to entry, and scale issues, a source of monopoly power or a combination of these and other reasons (Desai and Mukherji, 2001). Chandler (1977) suggests that mass production in the USA, as a result of advancing technology, triggered the initial movement toward forward integration to basically create wholesaling, retailing, and distribution systems. Others argue in the reverse and claim that mass marketing created the need to integrate backwards to internalize production and control sources of raw material (French, 1989).

The determinants of market structure and the role of competition were and are distinct across industries, and hence the pattern of vertical integration has been dissimilar for different industries in different countries (Desai and Mukherji, 2001). In the USA, the majority of backward integration is concentrated in just three industries: oil, copper and aluminum (Henhart, 1978). All three require heavy fixed investments with a long economic life, have very few alternative uses and have an inelastic supply and demand in the short run. In most countries, forward integration, especially into retailing and distribution, is based on the amount of interdependence arising out of the characteristics of the products (Porter, 1974).

Economic theory suggests that a firm will expand vertically as long as internal production is more cost beneficial than purchasing the resource from an external source avoiding variability in input and output markets, paying premiums for inputs, and where bilateral

trading is not beneficial. Green (1986) points out that contractual agreement between firms has its limits, and in the absence of a powerful price mechanism, vertical integration assures the firm of a market. Harrigan (1985) reveals that motives for vertical integration can be classified into four major categories: Transaction cost considerations; Strategic considerations; Output and/or input price advantages; and Uncertainties in costs and/or prices.

Chaudhuri (1981) suggests that agency considerations were key in creating vast, vertically integrated structures. Desai and Mukherji (2001) note that the need to buy raw materials over larger distances and the longer time-frames involved; continuous improvement in transport facilities leading to lowered transportation costs and decreased logistical difficulties; imperfect markets leading to large fluctuations in the prices and quantities of inputs encouraged integration of the processes under one management to overcome these administrative difficulties. Vertical integration also was a reaction of the industry structure to tariff policies and poorly developed intermediary markets.

Typically, the aim behind vertical integration is to have increased market power, control over prices, access to scarce resources, and creation of entry barriers, obtain economies of scale and exploit/overcome market imperfections. Chandler (1977) and Williamson (1975) take somewhat different approaches in explaining vertical integration. Chandler suggests that technology provides the fundamental dynamic, where manufacturers combine mass production and mass distribution. Williamson, on the other hand, opines that integration moves are responses to uncertainty in contracts, improved manufacturers' information and decision-making, and to reduce opportunism. In support of Chandler's

reasoning, French (1989) found that technology was the biggest driver of vertical integration in the US tires industry.

The financial outcomes of vertical integration remain an issue (Campbell, 1998). The vertical integration decision, however, has not resulted in predictable economic performance (D'Aveni and Ravenscraft, 1994). The complexity of the strategy, its competitive advantages and disadvantages, and its internal benefits and costs make forecasting its economic outcomes a difficult task (Harrigan, 1985). Despite these uncertainties, executives have questioned the value of vertical integration, largely due to the higher costs and inflexibility associated with it. This belief is mirrored in the business literature, which continues to suggest that outsourcing adds value to firms beyond that provided by vertical integration (Kelley, 1995).

For vertical integration to be successful top managers must adapt their managerial approach to suit the changes in functional activities that accompany their vertical shift. They must organize their firm to take advantage of existing functional knowledge, while simultaneously allowing new functional knowledge to develop. Downstream maneuvers will require more emphasis on market research, customer support and sales. Upstream positions will require more emphasis on product engineering and design or production or operations. The organizational structure, processes and people who comprise the dominant coalition may need to be shifted or otherwise changed, so that the company can operate successfully in a new stage.

Horizontal associations are where organizations producing similar products or different components of one product, form a co-operative association. Horizontal integration can

also occur between groups of suppliers that supply to one customer and/or the development of co-operative buying groups to reduce operating costs. These types of associations are present in a number of industry sectors (Manning and Baines, 2004).

In the high-tech industry, Kapur, Peters, and Berman (2003) argue that the future will be horizontal meaning that the proprietary and vertically integrated business models of the past will be unbundled into their component layers that can be assembled more cost-efficiently by others. Competition has traditionally been between players who compete in a single product vertical but in the horizontal future, competitors advancing horizontally from other verticals will challenge incumbents. The high-tech industry is being unbundled by two forces: the shift in consumer preferences to price-performance and the emergence of industry standards.

Additionally, Kapur et al. (2003) argue that the convergence of these two forces has the potential to wreak havoc on the vertically integrated models of proprietary vendors. The mainstream users who fill an expanding market are more impatient with incompatibility than are customers on the "bleeding edge" and as standards coalesce, companies that do not adhere to industry standards, or offer products that do not deliver on price-performance, are pushed aside. Each of these factors, price-performance and emerging industry standards, generates an unbundling impetus that erodes vertical models. Both factors in combination accelerate the rate of change. The transformation from a vertical to a horizontal model is, indeed, a radical one. Companies that have succeeded with one model may find themselves ill suited, and ill structured, for the other (Kapur et al., 2003).

An industry characterized by vertical models rewards the company that can exert tight control over a wide span of value chain activities within its own four walls. As a result, these companies may actually be best of class in few, if any, of the individual activities. By comparison, horizontal companies with single-minded focus will deliver best-of-class products or services within a narrow area of the value chain. In this new world, the collaborative network of multiple partners quickly begins to replace the tightly controlled “four-walls” model of a vertical industry (Kapur et al., 2003).

While unbundling is taking hold, the Web is simultaneously enabling a quantum leap in enterprise value proposition by expanding the possibilities along each of the 3 dimensions of customer value: price/value, customization/integration and innovation/performance. This expands the space for competitive positioning. To improve its price/value competitiveness, a company can use online channels for cost-effective customer acquisition and procurement; back-office operations can be Web-enabled and delivered more efficiently and a whole range of Web-enabled interactions can expand cost-savings opportunities across the enterprise. The Web also enables new levels of customization and integration. The customer interface can be customized far less expensively on the Web than through any other channel, delivering cost-effective recognition and higher retention and opportunities for online configuration ensure a better fit of product to customer needs (Kapur et al., 2003).

To improve its product-innovation capabilities, a company can use online tools for tighter linkage with customer design and qualification processes. Web-enabled collaborations with external partners accelerate time to market and a host of other Web-enabled

operations, including real-time inventory management and product life-cycle management, make it easier to get new technologies to the customers that need them, at the right time. By expanding the frontier of what is possible, Web-powered propositions can deliver dramatic improvements in value, winning over traditional value propositions on every dimension. While the need to make tradeoffs does not go away, they can now be made at a higher level of value to the customer (Kapur et al., 2003).

In recent times many observers have been as skeptical of Web-powered advances as they were once credulous. Underestimating the impact of the Web, however, may ultimately prove even more costly than overestimating the Web. The transformational power of Web-based technologies is still by and large unexploited. Studies of earlier technology transformations suggest that it can take years, even decades, for the full absorption of change to be realized, often slowed more by organizational factors than by technology itself (Kapur et al., 2003).

Benefits of horizontal integration include reduced logistics and administration costs for individual organizations; improved procurement terms through group purchasing power; lowering of the fixed costs of indirect labour e.g. marketing, quality assurance, technical, sales and financial departments; improved access to markets because continuity of supply can be assured; and overcoming financial barriers to trade. Key disadvantages include loss of independence for decision making; potential loss of individual contact between individual organizations and their supplier or customers due to centralization of decision making; potential to lose the national, regional or individual identity of an organization;

and decisions are taken to the benefit of the horizontal association not individual businesses (Manning and Baines, 2004).

2.7.2 Unrelated Diversification

Based on a ten-year study of more than 2,000 technology, service and product companies in a variety of industries, Zook and Allen (2001) found that most diversification strategies fail to deliver value and that most successful companies achieve their growth by expanding into logical adjacencies that have shared economies, and not from unrelated diversifications or moves into “hot” markets. Most businesses fail to achieve sustained profitable growth because they wrongly diversify from their core business. In order to succeed, firms must first know their “key assets”—consistent with concentric diversification. For example, they must identify their customers, capabilities, products, distribution channels, and other strategic assets, such as patents, brands, and position. They must reach their full potential in their core business and then expand into logically adjacent businesses surrounding the core (Zook, 2001a, b).

Mindy (2003) who analyzed the application of unrelated diversification strategy by the major oil companies in Kenya found out that they do so as this adds value to the services they delivered to their customers, even though it did not contribute directly to profitability. Such diversification entailed putting up tyre centers, convenience shops, work shops, cafeterias etc. These improved customer satisfaction and increased repeat purchase thus leading to increased sales volumes of core products such as fuel and lubricants.

Porter (1987) reports a success rate of less than 10 percent for companies that diversified into distant adjacencies. In contrast companies, which diversified close to their core, have shown between 70 and 90 percent success rates. According to Porter (1996), companies erode their competitive advantage based on their original target markets through diversification by making strategic compromises and allowing inconsistencies between their existing and new businesses. This is consistent with Porter's (1987) article that supports the idea that firms must identify their core business, which will be the foundation of the corporate diversification strategy.

Porter (1996) offers a number of mistakes made by companies who failed to achieve successful diversification. These examples are consistent in their deviation from the core business: they attempt to compete in more ways than e.g. competing with several brands in disparate positions; they fail to adapt acquired services, products or features to their strategy which entails audits, improvements in human resource, cost accounting, planning and budgeting systems and making them conform with central policies (Campbell and Goold, 1995); or finally, expansion into new markets where the company has nothing special to offer.

As far as unrelated diversification is concerned, Narasimhan and Kim (2002) found a correlation between failures of diversification and failure to establish relatedness among various business lines at the corporate level. In contrast Michel and Shaked (1984) found that unrelated diversifiers outperform related diversifiers. Thus it would seem that each form of corporate strategy is associated with a different set of economic benefits. In the case of unrelated diversification, the main benefits are economies of internal capital

markets in that unrelated business units can be monitored more effectively by constraining them to a single internal capital market, rather than by the external capital market en masse (Williamson, 1999).

In the case of related diversification, the main economic benefits are economies of integration and economies of scope. Economies of integration provide the firm with lower costs of production, lower costs associated to managerial opportunism and lower costs of writing contracts. Economies of scope include synergies between business units and researchers have argued that the primary determinant of firm performance is not the extent of diversification, but the relatedness in diversification, i.e. whether to diversify into related or unrelated industries (Markides and Holweg, 2006).

Prendergast (1990) has shown that, beyond a certain point, efforts of developing country firms to achieve economies of scope and scale that result from their diversification activities turn counterproductive because they complicate the production control and the managerial functions. The preference of developing country firms for diversification into horizontally unrelated areas is likely to increase the difficulties associated with increased diversification, as it requires managerial capabilities which may exceed those typically available to them (Benavente, 1996). Thus, while the rationale for diversification is stronger in developing countries than in the developed world, the drawbacks of the increasing managerial difficulties of running a large diversified firm are likely to apply also to this context.

2.8 Summary

Njenga (2003) has noted the higher popularity of selected market penetration and market development strategies among Uchumi customers and staff and the corresponding lesser popularity of given product development and diversification strategies among these same category of respondents. Additionally, Cross Et al. (2001) have indicated that the importance of a given strategy declines as its complexity increases, that is, the order of preference would be market penetration, product development, market development and lastly diversification. They also empirically determined that large firms are likely to choose market development and diversification as a means of growth.

In 2006, KPC's annual sales stood at Kshs. 8,451,512,000 (KPC, 2006). This translates to \$120,735,885.71. From Cross et al's. (2001) classification, KPC would thus be a medium sized firm (annual sales lying between \$50 million and \$499 million). Imputing from their study, we would thus expect KPC to favor market penetration, product development and market development with diversification the least desired strategy (Zook and Allen, 2001) owing to its risk and complexity. This study will seek to examine the findings obtained with a view towards drawing parallels with Cross et al's work and other findings cited in the literature review.

CHAPTER THREE: METHODOLOGY

3.1 Research Design

The study employs a case study design. Mugenda and Mugenda (1999) note that a case study is an in-depth investigation of an individual, group, institution or phenomenon whose purpose is to determine factors and their relationship that have been caused by the phenomenon under study. Given the fact that the KPC enjoys a monopoly in pipeline oil transportation, this research is a case study of the firm aimed at understanding in detail how the four Ansoff strategic choice options are practiced in the pipeline oil transport sector. The detailed results from the study to bring out the various aspects through which diversification strategies manifest themselves in their usage to secure competitiveness.

3.3 Data Collection

Data was collected by means of an interview guide consisting of structured and unstructured questions. Mugenda and Mugenda (1999) note that interview schedules obtain in-depth data through the use of probing questions and allow collection of data relevant to the research objectives through clarification of intended choices. The guide was administered to the Chief Executive Officer and 5 senior managers selected from different functional areas in the company so as to try and capture the different competitive dimensions that the Ansoff's growth strategies may manifest themselves in and bring scope and depth to the study.

3.3 Data Analysis

The first step in data analysis entailed data organization. This was thorough reading, editing and “cleaning up” of interview notes. The second step was entails creating categories, themes and patterns, a process which, in this study has been simplified by the actual existence of the four Ansoff growth themes. Thus, the key themes revolved around the concept of market penetration, market development, product development and diversification. However, the analysis tried to establish patterns where similar elements are used to achieve growth through the different strategic choices, for example, the use of advertising for market penetration and development. The objective here was to determine areas of emphasis and focus. Data analysis was executed using content analysis methods.

Mugenda and Mugenda (1999) observe that content analysis is the systematic qualitative description of the composition of the materials of the study. Its purpose is to analyze given information in order to determine factors that explain a given phenomenon. The information gathered will be analyzed to seek insights regarding the use of diversification strategies by KPC. The information provided will be organized into the respective themes and concepts from which generalizations will be formulated and interpretations and comparisons made in line with established theories.

The final report is narrative in nature, with a rich description of the findings, revolving around the four Ansoff growth choices and the context in which they occur. Respondents “voices” are recorded in given instances in order to derive the full meaning behind a given message. This avoids paraphrasing that dilutes the content.

CHAPTER FOUR: ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the findings of the research in relation to strategy choices made by KPC and to establish challenges facing the firm in making strategy choices. In order to attain these objectives, a case study was conducted. The research instrument used was a 10-page interview guide administered by the researcher. Five senior managers were interviewed, 3 of whom were from the Corporate Planning Department and one each coming from Finance and Engineering respectively, all of whom were involved in strategy planning. The Chief Executive Officer was also interviewed to give his perspective as to the direction the organisation was taking in regards to strategy development. The guides were mostly well filled out but two had a few questions left unanswered.

4.2 Organizational Changes that may Influence adoption of New Strategies

Changes that were effected in KPC included the reorganisation of the Management structure where the position of the Deputy Managing Director was abolished and two new positions of Chief Manager (Finance, ICT and Strategy), and Chief Manager(Human Resources and Administration) created to join the Chief Manager(Technical). These three chief managers report to the Managing Director who is also the Chief Executive.

Further changes in various levels of management and supervisory cadres are to be implemented if a report undertaken by appointed management consultants is adopted and implemented. Internal changes in KPC that have led to adoption of new strategies were cited as technological changes, changes in management approaches in public enterprises in Kenya, the need to cut losses, improvement in service delivery and communication necessitating implementation of System Application Program (SAP Enterprise Resource Planning), adoption of ISO 9001:2000 Quality Management Systems and a microwave backbone communication system (which is a communications network based on the microwave technology and independent from Telkom Kenya system and other service providers), capacity constraints at the firm leading to KPC not meeting increasing market demand for petroleum products, adoption of good financial management practices leading to rationalization and optimization of stock holding and adoption of performance contracting with emphasis on performance based reward and sanction system.

External changes included the proposed Dar es Salaam to Mwanza pipeline and regional growth in petroleum demand and Kenya-Uganda railway concessioning to Rift Valley Railways Company both requiring capacity enhancements, Government control and demands for transparency, discoveries of oil in Sudan and Uganda and the potential for pipeline connections to these areas, deregulation of the petroleum sub-sector resulting in competition, foreign exchange regulations and their impact on demand and costs, Kenya-Uganda pipeline extension, ICT demand and development regionally and globally, high prices of spares and equipment which are sourced globally, shift in world politics (post cold war era) and pipeline vandalism and terrorist threats.

The pressure on KPC to adopt new strategies occasioned by changes in its internal and external environment is in keeping with the fact that organizations must adapt to their environments if they are to remain viable. Smart and Vertinsky (1984) were earlier seen to observe that to maximize long-term effectiveness, firms need to develop the capability not only to cope with daily events in the environment, but also to cope with external events that are both unexpected and of critical importance. Recent changes in the oil industry in Kenya and globally suggest existence of flux and dynamism.

The Managing Director was quite assertive on the need for KPC to adopt new strategies to improve its business achievement. "KPC managers should continuously be looking ahead for new opportunities since the old business leads to saturation in the market and hence compels the organization to adopt survival tactics" he says.

4.3 Application of the Ansoff Matrix in Developing Strategy Choices and Challenges Faced

As detailed earlier, the findings revolved around creating categories, themes and patterns based on the four Ansoff growth themes of market penetration, market development, product development and diversification with the analysis attempting to establish patterns where similar elements were used to achieve growth through the different strategic choices, for example, the use of advertising for market penetration and development in order to determine areas of emphasis and focus. This is as below:

Export	Export	40.00
Local	Local	27.00
Export	Export	40.00

4.3.1 Market Penetration

Market penetration pricing was not widely used by KPC. This was attributed to the fact that tariffs have been held constant since 1994 and there is also the charging of comparatively lower export tariffs at Pump Station 27 (PS27) in Eldoret to encourage exports of petroleum. Being a monopoly, KPC would be expected to price its products at will without any adverse impact on its market share but is however restricted by the fact that the firm is state-owned and any price adjustments will require government approvals due to the fact that unreasonable prices would adversely affect economic growth. Given the low prices on KPC products, it is possible that the firm has developed scale economies that in turn lower total costs which lead to lower production costs, a key strategy that as seen earlier, penetration pricing aims to achieve. Penetration pricing involves the setting of lower prices to try and increase market share (Assael, 1993). However, being a state owned monopoly, KPC's low prices have little to do with this strategy as its strategy is aimed at economic welfare.

Table 4.1 KPC Transportation Tariff Schedule per M³

Entry Point	Delivery Point	Product	Tariff	
			US\$	KShs.
Mombasa	Nairobi Terminal	All		1530.00
Mombasa	Nairobi Terminal	Jet A-1	21.15	
Mombasa	JKIA	Jet A-1	21.15	
Mombasa	Moi Airport	Jet A-1	21.15	
Mombasa	Nakuru	Local		2105.00
Mombasa	Nakuru	Export	33.50	
Mombasa	Eldoret	Local		2706.00
Mombasa	Eldoret	Export	40.00	
Mombasa	Kisumu	Local		2703.00
Mombasa	Kisumu	Export	40.00	

Source: KPC Transportation and Storage Agreement p.19

Marketing push strategy was seen in the proposed point of presence in Rwanda and other locations, relocation of export loading from Eldoret and Kisumu to Nakuru and Nairobi, plans of extending the pipeline to Kampala and construction of an oil jetty in Kisumu; all these were viewed as capacity enhancement projects aimed at increasing access to the product. The push strategy is apparent in the construction of points of presence that will increase channel options. Of the three distribution enhancement strategies of intensive, selective and exclusive suggested by Werner et al. (2004), it would seem that KPC is pursuing the selective form with limited points of presence in the East African region enabling it to focus on profitable segments.

Respondents saw selective distribution channels as not used with provision of "common user facilities for all customers on an equal basis." They saw pipelines as sustained by high volumes and hence selective in the sense that only areas with a high demand potential were attractive for KPC pipelines and depots. However, as one respondent observed "... its [KPC's] position as a leader in the service there [in Kenya] has been [such that there has] been no need to use any discounts or advertisements." Thus, these strategies suggested by Paliwoda (1993) are not used owing to KPC monopoly in pipeline transport. Volume discounts were however used in the past. Collateral financing arrangements-where KPC manages oil product stocks on behalf of financiers such as banks from whom oil companies have borrowed money to purchase stocks- were cited as being used to encourage/promote business of oil marketing companies, in effect having a subtle "pull effect".

Customer relationship management was seen through the establishment of customer service desks at all operating depots with customer product deliveries, an updated website, customer satisfaction surveys, cocktails and stakeholders workshops and development of a service charter-a form of a service level agreement that obligates the firm to meet certain quality and service standards. As suggested by Perreault Jr. (1996) this strategy is popular owing to the fact that there is not much in terms of new investments required.

Encouraging switching from alternative energy sources was not done although KPC intends to commission a Liquefied Petroleum Gas (LPG) holding plant in Kenya to provide fuel alternatives to endangered energy sources like wood fuels. Co-petition (collaboration with potential competitors) was seen in rail siding in Eldoret (which are facilities for loading rail tanker wagons and involves collaboration with Rift Valley Railways), allowing truck loading (independent transporters) to load at KPC depots and proposed jetty at Pump Station 28 (PS28). Truck loading will allow loading of marine tankers which are owned by others and hence facilitate business for KPC and is a form of vertical collaboration (downstream) as suggested by Brandenburger and Nalebuff (1996). Franchising and encouraging innovative use of KPC products at factories as market penetration strategies were not used.

4.3.2 Market Development

Expansion of operations regionally was seen through pipeline extension and the proposals to build points of presence at selected outlets locally e.g. Central Kenya, which would represent market development in sub-sectors of the current market as identified by

Proctor (2000). KPC is also pursuing a regional reach through outlets in for instance Arusha and Namanga in Tanzania and also to Kigali in Rwanda, an approach seen by (Proctor, 2000) as a strategy of market development through geographic expansion.

The Western Kenya Pipeline Expansion (WKPE) in 1992/93 was aimed at tapping the Western Kenya market and neighbouring countries such as Rwanda, Uganda, Eastern Zaire and Northern Tanzania. The Kenya-Uganda extension aims at tapping the Great Lakes region countries by increasing channel depth and consequently developing new markets. Possible KPC depot in Rwanda is also an effort to expanding regionally. The KPC is constructing a pipeline to link the Kipevu Oil Terminal and the Shimanzi Oil Terminal-both in Mombasa that will increase its business opportunities.

Table 4.2 Product exported through KPC by destination

COUNTRY/YEAR	2001	2002	2003	2004	2005	2006
BURUNDI	54,250	53,309	40,264	57,773	63,860	65,556
RWANDA	94,617	95,861	109,937	124,550	156,343	218,003
S. SUDAN	21,834	20,981	16,941	23,012	29,898	37,034
N. TANZANIA	39,052	52,980	92,714	96,465	114,079	68,822
UGANDA	502,764	514,355	527,230	496,270	638,964	746,783
E. DRC	56,777	53,411	57,077	104,612	92,045	100,447
TOTAL	769,295	790,896	844,164	902,682	1,095,189	1,236,645
Market Demand for Exports*	941,923	1,047,122	1,105,274	1,204,098	1,389,602	1,497,484
KPC Market share	82%	76%	76%	75%	79%	83%

Volume in cubic metres(M³)

Source KPC Accounts

Targeting new market sub sectors in the current market e.g. non-users was also seen through capacity enhancement and capacity optimization initiatives to ensure availability of products, expansion of the pipeline to take products closer to the customers and providing efficient and effective service. New users (oil marketers) are encouraged to be

KPC customers as enriched by new Transportation and Storage Agreement signed with new customers. Using new distribution channels e.g. road, railways and/or ship was a widely used market development strategy contrary to Cross et al's. (2001) study where different distribution/service systems received approval ratings by only 8% of the respondents.

Table 4.3 Oil Deliveries per Company in KPC System for 2005 and 2006

SHIPPER	2005	2006	SHIPPER	2005	2006
ADDAX	2,499	22,039	KOBIL	529,288	563,572
BAKRI		45,921	MAFUTA	288	
CALTEX	557,338	32,767	METRO	58,109	45,389
CHEVRON	11,886	455,053	MGS	1,278	12,973
DALBIT	46,947	85,405	MOBIL	291,160	344,009
EMPEX		1,226	MOGAS	711	18,560
ENGEN		5,591	MOIL	40,160	44,126
FOSSIL	47,688	100,347	NOCK	121,481	162,886
FUELEX	5,264		OILCOM	53,107	54,795
GALANA	66,239	94,530	PETRO	131,963	133,455
GAPCO	28,386	46,630	SHELL	570,497	705,988
GULF		34,471	SOMKEN	16,573	
HASHI	121,301	118,529	TOTAL	606,867	553,680
HASS	107,550	100,494	TRITON	76,745	43,727
KENOL	34,338				

Source KPC 2007 Accounts

Respondents were fairly emphatic on the use of selective and geographic expansion; for instance one respondents had the reply "yes-the construction of rail siding at Eldoret depot and the ongoing Kisumu Oil Jetty are meant to take advantage of these channels". Others cited the construction of the hydrant system-the aircraft refueling system-at airports. Also KPC intends to engage in water transport via Lake Victoria by constructing a mooring facility to encourage product transfer from the pipeline to the lake vessels. Road and railway possibilities are also being explored with possible strategic depots in

Namanga, Nanyuki and Lokichoggio with KPC utilizing the other modes of distribution channels. There is a proposal incorporated in the company's strategic plan to build Points of Presence in Nanyuki, Namanga and Kigali.

The above findings tally with Kiilu's (2004) findings among public utility firms in Kenya, where targeting of new customer segments, selling in new national geographical areas and new distribution channels were the most popular market development strategies with the exception of international expansion which was ranked least popular by Kiilu but is indeed being used by KPC. KPC, like Kenya Airways (Mulandi, 2005) is aptly using regional market development strategies to expand regionally albeit on a smaller scale compared to the latter firm.

Hiring of additional sales force to drive growth was cited as a market development strategy. One respondent cited the establishment of a market research section and recruitment of customer service officers at loading depots. This is in agreement with Cross et al's. (2001) observation that using a sales force dedicated to specific markets is viewed as very important in industrial marketing (KPC sells its product only in bulk). A second respondent cited formation of the business development function in KPC to deal with market development issues. Cross et al. also point out the use of training existing/new sales staff as a strategy in the quest for new business opportunities. Training and/or retraining of existing sales force to drive growth is used by KPC through what a respondent called "The annual training needs assessment incorporated in the training programme" that ensures staff are trained for their roles effectively.

Price discrimination techniques (price differentials) were not used locally by KPC, a fact attributed by one respondent to "...KPC's monopolistic status in a...market with high unmet demand..." implying a market with an excess of demand over supply. Advertising targeting new market segments to encourage trial was cited by only one respondent in the form of "...corporate advertising as it has a unique offering..." Promotional activities were cited in form of stakeholders' workshops and trade fairs. Acquisitions to engender growth were not used at all. Corporate advertising is the only form of the promotional mix elements cited by Rowley (1998) which is used by KPC, albeit to a low extent.

4.3.3 Product Development

Undertaking handling and marketing of LPG offers KPC a completely new product. This is an area that was being pursued on a fast track basis. New product development through the addition of new features to existing products is not done. As a respondent put it "product is uniform and homogeneous with strict quality standard specifications". As Perreault Jr. (1996) observes, new product development may require the development of new competencies and would require KPC to develop modified products that can appeal to existing markets. Currently however, it would appear that KPC has not developed these competencies. However, this question was largely misunderstood by the respondents who cited infrastructural and capacity enhancements such as dedicated pipelines and tanks as new product features.

KPC has been using its market presence to distribute products for selected strategic partners e.g. the connection of Shimanzi Oil terminal with Kipevu Oil Storage Facility and the Kenya Petroleum Refinery Limited in progress. This as discussed earlier is more

of a strategic move where firms seek strategic partners looking for a distribution partner with a large market share they can use to channel their own products and services thereby introducing new products to the incumbent. KPC also offers common user facilities without discrimination that offer services to Uganda and Rwanda.

With regard to conducting market research to determine new product development opportunities, research is a continuous activity-KPC recently conducted a market demand survey for Kenya and the region. As seen, market research forms a basis for new product development (Kotler, 2001). However, some respondents wrongly repeated market penetration and development strategies such as pipeline penetration and Points of Presence under this theme. Repackaging new products as a product development strategy was not used. One respondent however mentioned what is akin to product positioning by citing improved operational efficiency and service delivery, ISO 9001:2000 standards adoption and the service charter (or service level agreement) which enable quality service.

KPC was seen to have joint new product development ventures with selected strategic partners, for instance, the LPG project is a joint venture with private investors and KPC intends to partner with KPRL in LPG transportation, storage and cylinder filling. (Sivadas and Dwyer, 2000) have noted that such partnerships are a source of competitive advantage. The use of focus groups and expert opinions (Delphi technique) in new product development was also found to be well used. As one respondent puts it; “[These techniques are] used-there is normal wide consultation with stakeholders and matters are normally handled by committees in the company which focus as focus groups”. These

discuss issues to do with say, the proposed parallel pipeline from Nairobi to Eldoret. It was unclear, however, whether these focus groups are used in the new product development process.

Using product life cycle modeling to assess new product development opportunity has not been used much as there has not been a need for product change or development. All respondents were unanimous on the lack of use of this strategy. Recruiting and training of the sales force to meet new product development opportunities was seen as ongoing at all times. Training was viewed as part of a package for major contracts. KPC created a Business Development section and recruits and continuously trains personnel in the section. Also, an earlier discussion had touched on the role of training of the sales force when dealing with market development issues

4.3.4 Diversification

The general sentiments regarding crude oil importation were that KPC's mandate allows for diversification to upstream product handling and KPC could enter into a strategic partnership e.g. with Kenya Petroleum Refineries Limited (KPRL) or a shipping company and import crude oil. However, given Harrigan (1985) observation of transaction cost considerations motives for moving upstream it might be a tall order given the huge costs of shipping ventures. With discovery of oil in Uganda and its presence in Southern Sudan, it would be possible to transport crude through a pipeline for refining at the Kenyan Coast and subsequent distribution and re-export enabling KPC to play a reverse role to what it is currently doing. This observation however had issues due to the fact that NOCK, another state corporation, is mandated to do this and has had an

advantage of an early head start. Also, others thought that this would be out of KPC's core business-KPC should concentrate on oil transport

Crude oil warehousing was seen as a move by KPC to offer new services-since storage is a key role of the company, it would result in diversification of its income. KPC, with its vast experience in petroleum handling and storage, could offer storage facilities for crude oil imported by others or by itself at a fee and improve on income sources. Dissenting respondents thought that this was not a good option since existing crude oil importation modalities, oil marketer's preference for imported material and capital budget required made this difficult to undertake. Backward integration may be a recommended strategy because as noted by Henhart (1978) the oil industry requires heavy fixed investments with a long economic life, has few alternative uses and has an inelastic supply and demand in the short run

Crude oil refinery was thought to be out of KPC's core mandate-also with Government having shares in KPRL and being the sole owner of KPC, it may consider it imprudent to allow KPC to offer competition to KPRL by starting an oil refinery. On a positive note, others thought that construction of new modern refinery or taking our current refinery and upgrading the same may be challenging, given the cheaper refined material available and preference by oil marketers for imported product.

Retailing of refined oil again was thought to be out of KPC's core mandate core mandate and was not recommended probably because as phrased by one respondent "may however negate current KPC operations of independent common use facilities. Others thought that this could be achieved through opening of retail outlets or taking over

existing operations. This strategy was however not thought to be viable as NOCK had already started this and being under the same owner, KPC may not have any competitive advantage in starting this line of business. Retailing of lubricants and associated oil by-products was again seen as not being core function and may not be viable for KPC as products are specialized in nature and specific to producers.

We can thus see that forward and backward integration (vertical integration) is not being practiced at the KPC. As Harrigan (1985) observes, the complexity of the strategy, its competitive advantages and disadvantages, and its internal benefits and costs make forecasting its economic outcomes a difficult task. Also it suffers from higher costs and inflexibility associated with it. Kelley (1995) also observes that outsourcing, the converse to diversification, adds value to firms beyond that provided by vertical integration.

Customer support was not thought to be diversification albeit it was thought of as being crucial for the sustainability of customer loyalty and satisfaction. Some respondents proposed that this could be achieved through providing efficient and effective service, and ensuring customer care is guaranteed. On the other hand, KPC could use customer support to assist new entrants to use its services by creating a level playing field insofar as joining requirements are concerned and offering services like common truck loading facilities and laboratories in strategic areas. Customer relationship could be enhanced through customer assistance desks to provide a one stop place for collection and addressing customer queries, complaints and comments.

Formation of collaborative working associations with other refined oil transporters (road and railway) to supply refined oil or liquefied petroleum gas (LPG) was favoured to some

extent, only that confidentiality should be observed and business strategy should be safeguarded against these competitors. Road and railway were seen to offer complimentary services especially delivery of products to areas where pipeline was not readily viable. Manning and Baines (2004) describe this as horizontal integration whose goal is to reduce operating costs.

Horizontal integration could be escalated through construction of an oil jetty in Kisumu, and the proposed opening of depots in Kigali, Nanyuki and Namanga where KPC could use other transporters to deliver products to those channels. Partnership with transporters could be used for bulk rail/road delivery of LPG to depots in strategic locations owned by KPC where common user facility for bottle filling could be used by distribution agents for a fee. KPC can collaborate with other product transporters to ensure that products reach those who are not close to KPC networks by installing required infrastructure e.g. railway siding to facilitate attendant modes of transportation.

Unrelated diversification through moving into a totally new line of business e.g. fiber optics was not thought by respondents to be viable despite KPC having advantage of assets e.g. right of way, which is the way leave granted to KPC for use in construction and operation of the pipeline linking major towns where it has a presence, Further arguments against this cited Telkom and other private companies as having undertaken major steps to provide optic fiber cable connections. Based on Zook and Allen's (2001) findings that unrelated diversification rarely succeeds, this aspect of diversification may take a while.

Diversification, if properly managed can be a vehicle for growth and improved performance (Chandler, 1990) and given KPC's size and market dominance, it is possible for it to be a driver for growth just like the Chaebols in South Korea (Amsden, 1998) or NMG in Kenya (Thuo, 2003). To that extent, KPC has thus underutilized its potential for growth in the local economy. However, diversification should be pursued carefully owing to its increased risk and as Kiilu (2004) points out, it is this consideration that makes public utility firms shun diversification.

Kiilu (2004) found that market penetration and market development were used by Kenyan public utilities to a moderate extent, with the former being the more popular. Diversification was the least used owing to the risk involved. Kiilu notes that these firms did not show much growth activity probably due to bureaucracy and their public nature. The same applies to KPC where most of the issues raised were stated in a futuristic sense. For example, one respondent argued that "KPC *could* import crude oil as a block for independent oil marketers, process the same at KPRL and sell to independent dealers who are not able to import individually." None of the respondents came out clearly on whether KPC has actually diversified its operations. The Managing Director was however emphatic that KPC has to diversify to improve its revenue base and some of the areas he considered should be developed include the commissioning of a training institute which will offer training in the areas of oil and gas and may be grown into a full fledged college. Already a site has been constructed in Morendat near Naivasha. Other areas include the field of Research and Development in conjunction with local institutions, franchising with oil companies in the distribution of lubricants and other products.

4.4 Challenges Faced by KPC in Making Strategic Choices

KPC, being a government firm, was seen by the respondents as facing many challenges in making decisions related to market penetration, market development product development and diversification strategy choices. These included slow decision making due to the bureaucracy of obtaining all relevant approvals before effecting any decision, the presence of many stakeholders with conflicting interests resulting in certain viable options being ignored or left out, poor Corporate Governance associated with quasi-Government bodies, poor delegation and lack of staff empowerment leading to sluggish growth and lack of a fully fledged research and development function with research being viewed as a waste of time.

Other include operational challenges i.e. company struggling with high numbers of employees that divert focus from growth strategies, inefficiency that leads to high operational expenditure, lack of consistency in management-there has been frequent changes in management and hence too many changes in focus which eventually affects strategy formulation and implementation, KPC monopolistic status means that the firm has no immediate competitors and is thus not under pressure to adopt competitive strategies, excessive demand for its services, resulting in a supply deficit, factors which may cause complacency and again, an unwillingness to adopt change and growth strategies.

Additionally, Government priorities are sometimes different from those of KPC in relation to regional expansion plans. KPC is also not utilizing its mandate to the full as per the articles of association. Rigidity on product line i.e. only petroleum products and

not crude or LPG also limit the firms capacity to expand and grow. The high capital outlay required for pipeline infrastructure, lack of adequate data and information on demand for petroleum products, inefficient intermediate transport i.e. roads and railway systems in a bad state, lack of unified policies on the petroleum sector within the regional market which sometimes hinders smooth flow of products to the market, cumbersome loading process impacting negatively on implementation of vital pipeline components and inputs and projects were other challenges that were mentioned.

Finally, interference by outsiders trying to influence decisions and hence derailing processes, dynamism of the petroleum sub-sector resulting in a constantly changing operational environment and resource constraints where all desired projects cannot be undertaken at the same time were also mentioned. Of these challenges, Government ownership and subsequent bureaucracy were repeatedly mentioned by successive respondents and this emerged as a key challenge that the company must address if it is to summon the will to forge ahead on a path of growth and innovation.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings, draws conclusions relevant to the research, and makes recommendations on the same.

5.2 Summary of Findings

The first objective was to determine the extent to which the Ansoff matrix is applied by the KPC to develop strategy choices. These choices were market penetration, market development, product development and diversification. Under market penetration, the key findings were that penetration pricing is not widely used owing to the fact that KPC enjoys a monopoly status and also because it is under Government ownership. Marketing push strategy was seen in the creation of local and regional points of presence that will increase channel options. Customer relationship management has seen the establishment of customer service desks at all operating depots, an updated website and customer satisfaction surveys among other strategies and it was widely used. Co-petition with independent transporters and the rift valley railways, is a strategy that is also being put to good use. Franchising, switching and product innovation were however, not used.

Market development was evident in the expansion of operations regionally through pipeline extension and the proposals to build points of presence at selected outlets locally and in the region. Targeting new market sub sectors in the current market was being

pursued through capacity enhancement and capacity optimization initiatives to ensure availability of products. Selective and geographic expansion for instance one respondents had the reply on the rise, with construction of strategic depots, oil jetty and exploration into modalities of increasing water and land transport of oil. Hiring of additional sales force to drive growth was cited as a market development strategy, with establishment of a market research section, a business development function and recruitment of customer service officers at loading depots. Price discrimination was however not used owing to KPC enjoying a monopoly.

Product development was manifest in the proposed LPG project. The firm does however conduct market research to determine new product development opportunities and research is a continuous activity. The firm also is primed to engage in joint new product development ventures with selected strategic partners like in the LPG project. Sales force recruitment and training were aspects that appeared to also be used in new product development ventures. New product development through the addition of new features to existing products was not done as refined oil is a homogeneous product. Using product life cycle modeling to assess new product development opportunity has not been used much as there has not been a need for product change or development.

Diversification was not used by KPC at all. However, respondents had various opinions regarding possible diversification strategies such as backward integration where KPC could involve itself in the importation, refining and selling of oil. Importation would be done with strategic partners while refining was thought to be a difficult venture owing to conflict with KPRL, a government firm that refines crude. Again, the company could go

into crude oil warehousing given its large storage capacity. Downstream there were suggestions of acquisition growth as a possible downstream entry route. Customer support was not thought to be diversification albeit it was thought of as being crucial for the sustainability of loyalty and satisfaction. Horizontal diversification was proposed through moving into LPG pipeline transport. Unrelated diversification through moving into a totally new line of business e.g. fiber optics was ruled out mainly due to competition from Telkom and other firms

The main challenge to KPC's operations was seen as government ownership that introduced bureaucracy in decision making. Conflict amongst stakeholders also resulted in viable decisions being ignored. There was also the lack of staff empowerment. Operational challenges included staff surpluses that divert focus from growth, operational ineffectiveness that resulted in high expenditures and constantly changing management strategies and of course, the monopolistic position that imbues laxity and complacency within the firm. High capital outlay required for pipeline operations, inefficient intermediate transport, lack of unified policies on the petroleum sector within the regional market which sometimes hinders smooth flow of products to the market, interference by outsiders trying to influence decisions and hence derailing processes, dynamism of the petroleum sub-sector resulting in a constantly changing operational environment and resource constraints where all desired projects cannot be undertaken at the same time were other challenges.

5.3 Conclusion

Market development appears to be KPC's main strategy with the building of strategic depots and points of presence in Kenya and the East African region. In this, market penetration was implied through the "push" strategy locally and was also evident in customer relations management initiatives and co-petition. Product development was evident in the LPG project proposal, while diversification was not used, albeit there was a wide approval of its potential.

5.4 Limitations of the Study

In certain cases, respondents did not fully understand the information sought and tended to give wrong responses or did not even respond to certain questions.

5.5 Recommendations

The study will recommend that KPC make intensive but strategic use of the four Ansoff growth opportunities. It is possible for the firm to increase its market presence in Kenya through market penetration that may entail increasing pipeline coverage to growth areas such as Central and Eastern Kenya. This will reduce the cost of fuel in these areas. Market development can also be intensified regionally, given the many opportunities present especially with oil discoveries in Uganda and Southern Sudan. Opportunities for product development do exist as KPC could, say, brand lubricants and retail them and so on. Finally, strategic diversification, both backward and forward has been reviewed and

the study will recommend that certain aspects, like crude oil warehousing (upstream) and selected retailing (downstream) be reviewed.

5.6 Areas for further Research

Quantitative inquiry could be done in order to determine actual figures relating to the use of each of the four growth strategies looked at in this study. This is due to the fact that this study employed the content analysis method and the report is narrative in nature.

REFERENCES

- Adler, P. S., Mandelbaum, A., Nguyen, V. and Schwerer, E. (1996), 'Getting the most out of your new product development'. *Harvard Business Review*, 74(2), pp. 134-147.
- Amsden, A. (1998), 'South Korea: Enterprising Groups and Entrepreneurial Government' In Chandler, A. C. et al. (Eds), *Big Business and the Wealth of Nations*, Cambridge, Cambridge University Press.
- Ansoff, H. I. (1965), *Corporate Strategy- An Analytical Approach to Business Policy for Growth and Expansion*, McGraw-Hill, New York, NY.
- Ansoff, H. I. (1957), 'Strategies for Diversification', *Harvard Business Review*, September - October, pp. 113-124.
- Anwar, S. (2003), 'Vodafone and the Wireless Industry: a Case in Market Expansion and Global Strategy', *The Journal of Business and Industrial Marketing*, 18(3)
- Assael, H. (1993). *Marketing Principles and Strategy*, 2nd Edition, The Dryden Press, Harcourt Brace Jovanovich College Publishers.
- Balasubramanian, R. and Baumgardner, S. (2004). 'Good supplier management aids new product launch'. *Quality Progress*, 37(6), 49-63.
- Benavente, J. M. (1996), 'New Problems and Opportunities for Industrial Development in Latin America', UNCTAD/ITE/EDS/Misc.2, CEPAL, Santiago de Chile.
- Bengtsson, M. and Kock, S. (2000), 'Co-opetition in Business Networks-to Cooperate and Compete Simultaneously', *Industrial Marketing Management*, 29, pp. 411-26.
- Bennett, R. and Vignali, C. (1996), 'Dancall Telecom A/S in the UK mobile telephone market', *Management Decision*, 34(8), p6(11)
- Brandenburger, A. and Nalebuff, B. (1996), *Co-opetition*, Doubleday, New York, NY.
- Buckley, P. J. and Casson, M. (1976), *The Future of Multinational Enterprise*, London: Macmillan.
- Calabrese, G. (2002). 'Small-medium car suppliers and behavioural models in innovation'. *Technology Analysis and Strategic Management*, 14(2), 217-226.
- Campbell, A. and Goold, M. (1995), 'Corporate Strategy: the Quest for Parenting Advantage', *Harvard Business Review*, 73(2), pp. 120-33.

- Campbell, S (1998), Questioning the Integrated Vision, *Health-Care Strategic Management*, 16(10), pp. 13-15.
- Carson, D. J. (1985), The evolution of marketing in small firms, *European Journal of Marketing*, 19(5).
- Chandler, A. D. (1977), *The Visible Hand: The Managerial Revolution in American Business*, Harvard University Press, Cambridge, MA.
- Chandler, A. D. (1990), *Scale and Scope, The Dynamics of Industrial Capitalism*. Cambridge, MA: Harvard University Press.
- Chaudhuri, K. N. (1981), 'The English East India Company in the 17th and 18th centuries: a Pre-modern Multinational Organization', in Blusse, L, Gaastra, F (Eds), *Companies and Trade*, The Hague.
- Christensen, C. (1998), *Innovator's Dilemma: When New Technologies Cause Great Firms to Fail*, Harvard Business School Press, Boston, MA.
- Coulter, M. K. (2000), *Strategic Management in Action*, 3rd edition, Prentice-Hall, Englewood Cliffs, NJ.
- Cravens, D. W., Piercy, N. F. and Prentice, A. (2000), Developing market-driven product strategies, *Journal of Product and Brand Management*, 9(6), pp. 369-388
- Cross, J., Hartley, S. W., Rudelius, W. and Vassey, M. J. (2001), Sales Force Activities and Marketing Strategies in Industrial Firms: Relationships and Implications, *Journal of Personal Selling and Sales Management*, 21(3), p 199
- D'Aveni, R. A., and Ravenscraft, D. J. (1994). Economies of integration versus bureaucracy costs: Does vertical integration improve performance? *Academy of Management Journal*, 37(5), 1167-1206.
- David, F. R., (2001), *Strategic Management*, 18th Edition, Prentice Hall, Upper River, NJ.
- Desai, A. and Mukherji, A. (2001). The Evolution Of Vertically Integrated Organizations: The Role of Historical Context, *Management Decision* [online], 39(3), available at:
<http://www.emeraldinsight.com/Insight/ViewContentServlet?Filename=Published/EmeraldFullTextArticle/Articles/0010390308.html> [cited 13th March 2007]
- Dey, P. K. (2001). A risk-based model for inspection and maintenance of cross-country petroleum pipeline, *Journal of Quality in Maintenance Engineering* [online], 7(1), available at:

<http://www.emeraldinsight.com/Insight/ViewContentServlet?Filename=Published/EmeraldFullTextArticle/Articles/1540070102.html> [cited 11the March 2007]

- Dingkun Ge (2002), Value pricing in presence of network effects, *Journal of Product and Brand Management*, 11(3), pp. 174-185
- Dwyer, F. R., Schurr, P. H. and Oh, S. (1987), Developing Buyer-Seller Relationships, *Journal of Marketing*, 51(April), pp. 11-27.
- Eckard, E (1984), Alternative vertical structures: the case of the Japanese auto industry, *Business Economics*, 19(5), pp. 57-61.
- Ettlie, J. E. and Pavlou, P. A. (2006), Technology-Based New Product Development Partnerships, 37(2), pp. 117
- Ettlie, J. E. and Sethuraman, K. (2002). Locus of supply and global manufacturing, *International Journal of Operations and Production Management*, 22(3), 349-370.
- Feurer, R. and Chaharbaghi, K. (1996), Competitive Environments, Dynamic Strategy Development Capabilities and Business Performance, *Benchmarking For Quality Management and Technology* [online], 3(3), pp 32-49
- French, M. (1989), Manufacturing and Marketing: Vertical Integration in the US Tire Manufacturing Industry, 1890-1980, *Business and Economics History*, 18, pp.178-87.
- Green, A (1986), 'Vertical Integration and Assurance of Markets', in Stiglitz, D, Matthewson, G (Eds), *New Developments in the Analysis of Market Structure*, MIT Press, Cambridge, MA, pp.177-207.
- Handfield, R. B., Ragatz, G. B., Petersen, K. J. and Monczka, R. M. (1999). Involving suppliers in new product development. *California Management Review*, 42(1), 59-82.
- Harrigan, K (1985), Vertical Integration and Corporate Strategy, *Academy of Management Journal*, 28(2), pp. 197-425.
- Henhart, J. (1978), *A Theory of Multinational Enterprise*, University of Michigan Press, Ann Arbor, MI.
- Hill, C. W. L. and Hoskisson, R. E. (1987). Strategy and Structure in the Multiproduct Firm, *Academy of Management Review* [online], 12, pp. 331-41.
- Hopkins, P. (1994), Ensuring the safe operation of older pipelines, International Pipelines and Offshore Contractors Association, 28th Convention.

- Hoskisson, R. E. and Turk, T. (1990), Corporate Restructuring: Governance and Control Limits of the Internal Market, *Academy of Management Review* [online], 15, pp. 459–77.
- Hymer, S. H. (1960). *The International Operations of National Firms: A Study of Direct Investment*, PhD Thesis, MIT, MIT Press.
- Jobber, D. (2001), *Principles and Practice of Marketing*, McGraw Hill, Maidenhead.
- Johnson G and Scholes K., (2002), *Exploring Corporate Strategy: Text and Cases*, 6th edition, Prentice Hall of India, New Dehli.
- Kapur, V., Peters, J. and Berman, S. (2003), High-tech 2005: the Horizontal, *Work Study* [online], 45(7), available at: Hypercompetitive Future, *Strategy and Leadership* [online], 31(2), available at: <http://www.emeraldinsight.com/Insight/ViewContentServlet?Filename=Published/EmeraldFullTextArticle/Articles/2610310205.html> [cited 16th March 2007]
- Kelley, B (1995), Outsourcing marches on, *Journal of Business Strategy*, 16(4), pp. 39-42.
- Kenya Pipeline Company [KPC], (2005), Five Year Corporate Strategic Plan 2005/06–2009/10
- Kenya Pipeline Company [KPC], (2006), Two Thousand and Six Annual Reports and Accounts
- Kiilu J. M. (2004), *A Survey Of The Extent Of The Application Of Ansoff's Growth Strategies In The Public Utility Sector In Kenya*, Unpublished MBA Research Project, University Of Nairobi, Nairobi, Kenya
- Kotler, P., (2001), *Marketing Management*, 10th (Millennium) Edition, Prentice Hall Inc., Upper Saddle River, New Jersey 07458, U.S.A
- Kotzab, H. and Teller, C. (2003), Value-adding partnerships and Co-opetition Models in the Grocery Industry, *International Journal of Physical Distribution and Logistics Management*, 33(3), available at: <http://www.emeraldinsight.com/Insight/ViewContentServlet?Filename=Published/EmeraldFullTextArticle/Articles/0050330305.html> [cited 08th April 2007]
- Manning, L. and Baines, R. N. (2004), Globalisation: a Study of the Poultry-Meat Supply Chain, *British Food Journal* [online], 106(10/11), available at: <http://www.emeraldinsight.com/Insight/ViewContentServlet?Filename=Published/EmeraldFullTextArticle/Articles/0701061009.html> [cited 16th March 2007]

- Markides, V. and Matthias Holweg (2006), On the Diversification of International Freight Forwarders: A UK perspective, *International Journal of Physical Distribution and Logistics Management*, 36(5), pp. 336-359
- Mathewson, G. F. and Winter, R. H. (1985), The Economics of Franchise Contracts, *Journal of Law and Economics*, 28, pp. 503-26.
- Michel, A. and Shaked, I. (1984), Does Business Diversification Strategy affect Performance? *Financial Management*, 13, pp. 18-24.
- Moore, J. (1997), *The Death of Competition*, HarperCollins, New York, NY.
- Mugenda, O. M. and Mugenda, A. G. (1999). *Research Methods: Qualitative and Quantitative Approaches*, ACT Press, Nairobi
- Mulandi, F. (2005), *Adoption of Market Development Strategy By Kenya Airways*, Unpublished MBA Research Project, University Of Nairobi, Nairobi, Kenya
- Musembi, P. M. (2005), *A Study of Related Diversification with EABS*, Unpublished MBA Research Project, University of Nairobi, Nairobi, Kenya
- Mwanzi, S. (1992), *Diversification Strategy and Performance: A Case Study of Kenya's Life Insurance Industry*, Unpublished MBA Research Project, University of Nairobi, Nairobi, Kenya
- Mwindi P. K. (2003). *An analysis of the application of Unrelated Diversification Strategy by the Major Oil Companies in Kenya*, Unpublished MBA Research Project, University of Nairobi, Nairobi, Kenya
- Narasimhan, R. and Kim, S.W. (2002), Effect of Supply Chain Integration on the Relationship between Diversification and Performance: Evidence from Japanese and Korean Firms, *Journal of Operations Management*, 20(3), pp. 303-23.
- Nikolenko, A. and Kleiner, B. H. (1996), 'Global Trends in Organizational Design', <http://www.emeraldinsight.com/Insight/ViewContentServlet?Filename=Published/EmeraldFullTextArticle/Articles/0790450704.html> [cited 21st February 2007]
- Njenga, M. (2003), *Attitudes of Selected Stakeholders towards Growth Strategies Followed By Large Scale Retailers in Kenya. The Case of Uchumi Supermarkets*, Unpublished MBA Research Project, University of Nairobi, Nairobi, Kenya
- Norton, S.W. (1988), an Empirical Look at Franchising as an Organizational Form, *Journal of Business*, 61(2), pp. 197-219.

Okiro, P. O. (2006), *Strategy Development Process and Factors influencing Strategy Development at Kenya Pipeline*, Unpublished MBA Research Project, University of Nairobi, Nairobi, Kenya

Paliwoda, S. J. (1993). *International Marketing*, 2nd Edition, Butterworth-Heinemann Ltd, Linacre House, Jordan hill, Oxford, OX2 8D

Pearce J and Robinson R, (1997), *Strategic Management: Formulation, Implementation and Control*, Sixth Edition, Irwin/McGraw-Hill

Penrose, E. T. (1995). *The Theory of the Growth of the Firm*, New York, Wiley.

Precut, Jr., W. D. (1996). *Basic Marketing: A Global Managerial Approach*, 12th Edition, Irwin McGraw-Hill Companies, NY.

Perry, C. (1987), Growth strategies: principles and case studies, *International Small Business Journal*, 5, pp.17-25.

Porter, M. E. (1974), Consumer Behavior, Retailer Power and Market Performance in Consumer Goods Industries, *The Review of Economics and Statistics*, 56(4), pp. 419-36.

Porter, M. E. (1987), From Competitive Advantage to Corporate Strategy, *Harvard Business Review*, 65(3), pp. 43-59.

Porter, M. E. (1996), What is Strategy? *Harvard Business Review*, 74(6), pp. 61-78.

Prendergast, R. (1990), Causes of Multiproduct Production: the Case of the Engineering Industries in Developing Countries, *World Development*, 18(3), pp. 361-70.

Proctor, T. (2000), *Strategic Marketing: An Introduction*, Routledge 11 New fetter Lane, London EC4P 4EE

Quint, B., (2000), About.com Acquired by Primedia: Sin or Synergy? *Information Today*, 17

Reinhardt, L., Shapiro, H. J. and Kallman, E. A. (1981), *The Practice of Planning: Strategic, Administrative and Operational*, Van Nostrand Reinhold, New York, NY

Rowley, J. (1998), Promotion and Marketing Communications in the Information Marketplace, *Library Review*, 47(8), pp. 383-387

Rumelt, R. P. (1974), *Strategy, Structure and Economic Performance*, Harvard Business School Press, Boston, MA.

- Sen, K. C. (1998), The Use of Franchising as a Growth Strategy by US Restaurant Franchisors, *Journal Of Consumer Marketing*, 15(4), pp. 397-407
- Sivadas, E. and Dwyer, F. R. (2000). An examination of organizational factors influencing new product success in internal and alliance-based processes. *Journal of Marketing*, 64(1), pp 31-49.
- Slywotzky, A. J. (1996), *Value Migration*, Harvard Business School Press, Boston, MA.
- Smart, C. and Vertinsky, I. (1984), Strategy and the environment: a study of corporate responses to crises, *Strategic Management Journal*, 5, pp. 199-213.
- Smith, C. G. and Cooper, A. C. (1988), Established Companies Diversifying into young Industries: a Comparison of Firms with different levels of Performance, *Strategic Management Journal* [online], 9, pp. 111-21.
- Steers, R. M. (1977), *Organizational Effectiveness: A Behavioral View*, Goodyear Publishing Co., Santa Monica, CA.
- Storey, D. J. and Sykes, N. (1996), Uncertainty, innovation and management, in Burns, Dewhurst (Eds), *Small Business and Entrepreneurship*, Macmillan, Basingstoke, pp.73-93.
- Suarez, F. F. and Oliva, R. (2005) Environmental Change and Organizational Transformation, *Industrial and Corporate Change*, 14(6), pp 1017-1041
- Temin, P. (1988), Product quality and integration in the early cotton textile industry 1825-1850, *Journal of Economic History*, pp. 891-907.
- Thujo, N (2003), *Diversification Strategy: A Case of Nation Media Group*, Unpublished MBA Research Project, University of Nairobi, Nairobi, Kenya.
- Tsai, W. (2002), Social Structure of 'Co-opetition' within a Multiunit Organization: Coordination, Competition, and Intraorganizational Knowledge Sharing, *Organization Science*, 13(2), pp. 179-90.
- Tull, D. and Hawkins, D. (1993). *Marketing Research: Measurement and Method*, 6th ed., Macmillan Publishing Company, New York, NY.
- U.S. Department of Transportation [USDOT], Bureau of Transportation Statistics (2001), *U.S. Oil and Gas Pipeline*.
- Wake, W. and Ngunjiri, P. (2005). *UN calls for extension of Eldoret-Kampala Pipeline*, Alexander's Gas and Oil Connections, News and Trends: Africa, 10(18), available at: <http://www.gasandoil.com/goc/news/nta53919.htm> [cited 13th March 2007] *website publication*

Wanyande, J. B. (2006), *Application Of Ansoff's Growth Strategies By Internet Service Providers In Kenya*, Unpublished MBA Research Project, University Of Nairobi, Nairobi, Kenya

Watts, G., Cope, J. and Hulme, M. (1998), Ansoff's Matrix, pain and gain Growth strategies and adaptive learning among small food producers, *International Journal of Entrepreneurial Behaviour Research*, 4(2), pp. 101-111

Weiner, J. (1994). 'Forecasting demand: consumer electronics marketer uses a conjoint approach to configure its new product and set the right price', *Marketing Research*, Summer, 6(3), pp. 6-11.

Werner, U., McDermott, J. and Rotz, G. (2004), Retailers at the crossroads: how to develop profitable new growth strategies, *Journal of Business Strategy*, 25(2), pp. 10-17

Williamson, O. E. (1975), *Markets and Hierarchies: Analysis and Antitrust Implications*. New York, Free Press.

Williamson, O. E. (1999), Strategy Research: Governance and Competence Perspectives, *Strategic Management Journal*, 20, pp. 1087-108.

Wotruba, T. R. and Rochford, L. (1995), The Impact of New Product Introductions on Sales Management Strategy, *Journal of Personal Selling and Sales Management*, 15(Winter), pp. 35-51.

Zook, C. (2001a), Desperately Seeking Growth: The Virtues of Attending to your Core, *Harvard Management Update*, 6(6).

Zook, C. (2001b), Step by Step, *World Link*, pp. 48-52.

Zook, C. and Allen, J. (2001), *Profit from the Core: Growth Strategy in an Era of Turbulence*, Harvard Business School Publishing, Boston, MA.

APPENDIX 1

Complementary Letter to the Respondents



University of Nairobi

Date: 6 November 2007

School of Business

Telephone: +254 (020) 732160

P.O. Box 30197

Telegrams: "Varsity", Nairobi

Nairobi, Kenya

Telex: 22095 Varsity

To Whom It May Concern

The bearer of this letter: _____

Registration Number: _____ Telephone: _____

Is a Master of Business Administration (MBA) student at the University of Nairobi.

The student is required to submit, as part of the coursework assessment, a research project report on a given management problem. We would like the students to do their projects on real problems affecting firms in Kenya today. We would therefore appreciate if you assist the student collect data in your organization to this end. The results of the report will be used solely for purpose of the research and in no way will your organization be implicated in the research findings. A copy of the report can be availed to the interviewed organization(s) on request.

Thank you,

The Coordinator, MBA program

APPENDIX 2

Part 1

1. Please indicate your functional area. _____

2. Are you involved in strategy planning in KPC?

[] Yes; [] No

3. In your understanding, please explain any recent changes within KPC that have necessitated adoption of new strategies

4. In your understanding, please explain any recent changes outside KPC that have necessitated adoption of new strategies

Part 2

5. Please explain how each of the **marketing penetration** techniques below are used by KPC to target its current customers:

a. Franchising

b. Pricing aimed at increasing sales volumes and market share (penetration pricing)

c. Marketing “push” strategy aimed at getting KPC products into the marketplace

d. Marketing “pull” strategy aimed at getting prospective buyers to buy the product

e. Co-petition-collaborating with competitors to achieve increased market access

f. Encouraging switching from alternative energy sources e.g. wood fuel

g. Customer relationship management

h. Offering volume discounts

i. Encouraging innovative uses of KPC product offerings in factories etc

j. Using intensive distribution channels to cover as much of the market as possible

k. Using selective distribution channels to focus on profitable market segments

6. Please explain how each of the **marketing development** techniques below are used by KPC to target its current customers:

a. Expanding your operations geographically into the region

b. Targeting new market sub sectors in the current market (e.g. non-users)

c. Using new distribution channels e.g. road, railways and/or ship

d. Opening completely new storage outlets

e. Using price discrimination techniques (price differentials)

f. Advertising targeting new market segments to encourage trial

g. Acquisitions to engender growth

h. Hiring of additional sales force to drive growth

i. Training and/or retraining of existing sales force to drive growth

7. Please explain how each of the **product development** techniques below are used by KPC to target its current customers:

a. Development of completely new products

b. Addition of new features to existing products

c. Using your market presence to distribute products for selected strategic partners

d. Conducting market research to determine new product development opportunities

e. Repackaging existing products

f. Forming joint new product development ventures with selected strategic partners

g. Use of focus groups and expert opinions (Delphi technique) in new product development

d. Retailing of refined oil

h. Using product life cycle modeling to assess new product development opportunity

e. Retailing of lubricants and associated oil by-products

i. Recruiting and training of the sales force to meet new product development opportunities

f. Customer support

8. Please explain how the **diversification** techniques below can be used by KPC

a. Importing crude oil

b. Crude oil warehousing

c. Crude oil refinery *new line of business eg. fiber optics*

d. Retailing of refined oil

e. Retailing of lubricants and associated oil by-products

f. Customer support

g. Form collaborative working associations with other refined oil transporters (road and railway) to supply refined oil or liquefied petroleum gas (LPG)

h. Move into a totally new line of business e.g. fiber optics

Thank you for your co-operation

