LOCATION AS A BASIS OF COMPETITIVE ADVANTAGE FOR GRAIN MILLING FIRMS IN NAIROBI AND MOMBASA

AMOS OCHIENG OJWANG

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

OCTOBER, 2012

DECLARATION

This Research Project is my original work and has not been submitted for a degree in any other University

Signed.....Date.....12/11/12.....

Amos Ochieng Ojwang

Reg. D61/76135/2009

This Research Project has been submitted for examination with my approval as the University Supervisor

Signed.....Date.....13/11/2012.....

Dr. Jackson Maalu,

Department of Business Administration,

School of Business,

University of Nairobi.

ACKNOWLEDGEMENT

This research project has been able reach successful completion due to the efforts of my supervisor, Dr. Jackson Maalu, who offered guidance, encouragement and support at every step. For that, I am truly thankful.

I would be amiss not to mention my fellow students for their support and cooperation, and to my friends and work colleagues. A special mention goes to my entire family for being supportive all the way.

Lastly, my sincerest regards to all the respondents who took time off their busy schedules to respond to my questionnaire, and especially to Mr. David Okwaro Chemwami, the Operations Manager of Pembe Flour Mills who went out of his way to explain to me the workings of the industry.

Amos Ochieng

DEDICATION

I dedicate this research project to the memory of my late mother Prisca A. Ojwang, who would to urge her children to seek knowledge, even if for its own sake, and to always try to do the best that they could.

ABSTRACT

Businesses worldwide are faced with different kinds of challenges which if not properly handled can lead to the business making losses or even to wind up. It is in this context thus that businesses try to develop strategies and attributes which will enable them become competitive in order to outperform the competition and make higher profits. The aim of this study was to establish if location is used as a basis of competitive advantage by grain milling firms in Nairobi and Mombasa.

To this end, this exploratory study was conducted to establish if the locations picked by grain millers to set up their business gives an advantage over businesses located in different locations. The study was a census of the grain milling firms located in Nairobi and Mombasa. Data was collected from a total of 31 firms. The grain milling firms purposively selected for this study constituted of 19 [61.3%] from Nairobi and 12 [38.7%] from Mombasa. Data was collected using a comprehensive questionnaire which was administered to respondents. The study used both structured and close ended questions. The respondents included different line managers who had different academic qualifications and business experience concerning developing business strategies for the milling firms to enable the business remain competitive and grow to new levels. These included sales, operations and marketing managers.

Generally, the findings of this study was that location of a firm was only a competitive advantage if that location was near factors like relevant technology and provided access to a good transportation network. Otherwise, location did not act as basis for competitive advantage. Many respondents stated that factors like brand power and packaging offered a potent strategy for competitive advantage.

TABLE OF CONTENTS

LIST OF TABLES

ABBREVIATIONS

EPZA	Export Processing Zones Authority
NCPB	National Cereals and Produce Board of Kenya
MOA	Ministry of Agriculture
FAO	Food and Agriculture Organization of the United Nations
CMA	Cereal Millers Association

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

One of the main aims of modern businesses is to develop competitive advantages to enable it outperform its competition in order to sustain its profit making ability. Competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors (Kay, 1994). As developed by Porter, the terms competitive advantage is the ability gained through attributes and resources to perform at a higher level than others in the same industry or market (Porter 1980 cited by Lynch 1999) In other words, a company may be deemed to have competitive advantage when it is able to generate above average profits as compared with other companies it competes against within the same industry (Lynch 1999). A competitive advantage becomes strategic to a firm when it recognizes its competitive advantage, and then uses it as a wedge and strategy for generating more revenues and profits within the industry it competes in (Strategicadvantage.com 2012). Strategic competitive advantages as outlined by Porter include cost leadership, location, and differentiation/specialization amongst others (Ehmke, 2008). He adds that location can be in terms of nearness to the market, nearness to raw material, to skilled labor, to necessary infrastructure, among others factors associated with business location.

Kenya as a country has a grain production to consumption deficit which it meets through imports through the port of Mombasa (EPZA, 2011). According to the National Cereals and Produce Board, Kenya annually consumes about three million

metric tons of maize whereas production is about 1.8 million metric tons, meaning the rest has to be imported if the country is to avoid starvation (NCPB, 2011). The grain milling industry is characterized by firms having to source for raw materials both locally and internationally. As such, the location of the firm in terms of ease of access to raw materials may ultimately influence the prices of their products and market performance (Piana, 2003). This study will try to establish whether the location of a milling firm in either portside town of Mombasa or the capital city of Nairobi forms a strategic competitive advantage. This is because millions of tons of grain consumed in Kenya are imported through the port of Mombasa (EPZA, 2012), and as such, nearness to the port may influence prices of the end products.

1.1.1 Competitive Advantage

Ehmke (2008) defines competitive advantage as an advantage gained over competitors by offering customers greater value, either through lower prices or by providing additional benefits and service that justify similar, or possibly higher, prices. He adds that for growers and producers involved in niche marketing, finding and nurturing a competitive advantage can mean increased profit and a venture that is sustainable and successful over the long term. The scholar gives ten reasons as to why a business succeeds, including managerial skill and experience, superior location, aggressive marketing, a good product, innovativeness, good customer service, cost competitiveness, resourcefulness among others. However, a company's competitive advantage cannot be sustained indefinitely because the promise of economic rents that invites their competitors to duplicate the competitive advantage presently held by that company (Porter, 1980, cited by Raturi et al, 2002).

A company has a strategic or sustainable competitive advantage when its value-creating processes and position in the industry has not been able to be duplicated or imitated by their competitors (Rumelt, 2003). Sustainable competitive advantage results, according to the resource-based view theory by Michael Porter, in the creation of above-normal rents in the long run (StrategicCompetitveadvantage.com). According to Porter (1980, 1985) and Porter and Millar (1985), a firm develops its business strategies in order to obtain competitive advantage (i.e., increase profits) over its competitors. It does this by responding to five primary forces: (1) the threat of new entrants, (2) rivalry among existing firms within an industry, (3) the threat of substitute products/services, (4) the bargaining power of suppliers, and (5) the bargaining power of buyers. A company assesses these five competitive forces in a given industry, then tries to develop the market at those points where the forces are weak (Porter 1979 as quoted by Shin, 2001). This means that a firm's strategy is modeled on controlling its weakness and capitalizing on its strengths so as to make more profits than the competition.

Kurtus (2007) argues that one way that a company can beat other companies in getting sales is by having a superior business location. If the competing company already has a good location, another strategy is to weaken or undermine that location. If your superior location is being attacked, differentiating from the competition may help stave off the attack. He adds that the key to business success is location, in that a firm needs a location that is easy to access and convenient for shoppers (Kurtus, 2007, Wind 1989, Ginter, 1987). The location should be readily accessible to suppliers and distribution channels, as well as supply of workers. McKendrick et al (2000) propose that location matters as

strategic competitive advantage because investment decisions are increasingly being driven by efforts not only to lower costs and penetrate markets but also to gain access to an array of location specific benefits that complement and even develop the assets of the firm such as specialized labor, critical suppliers or supportive infrastructure. He adds that in seeking to exploit these location assets, firms face both centripetal and centrifugal forces. Centripetal forces, such as economies of scale and advantages of proximity push firms to concentrate value added activities in a limited number of places, while centrifugal forces such as the lure of lower factor costs, access to markets or complementary assets invite dispersion of activities over several locations (McKendrick, 2000)

1.1.2 Location and Competitive Advantage

The location of a business is the place where it is situated Ehmke (2008) argues that there are a number of factors that need to be considered in choosing a location for a business. The ideal location would be one where costs are minimized and profits maximized, he adds.

In order to gain competitive advantage, business organizations formulate business strategies that can manipulate the available resources over which the firm has direct control or influence, and these resources have the ability to generate competitive advantage (Reed and Fillippi 1990 cited by Rijamampianina 2003, p. 362). In this regard, location can act as an asset or an advantage in relation to a firm's nearness to the market, to raw materials or supplies, to supportive infrastructure like roads, to a skilled labor force, space, amongst such other advantages. These assets lead to a specific

competitive advantage for example cost leadership when it can reduce its costs by saving on transport cost incurred to move supplies to the firm and finished product to customers (Saloner et al, 2001)

In addition, according to Shin (2001), when choosing a location it is important to take in mind the kind of business you are looking to locate. The factors to be considered for a large supermarket are different to those of a cement manufacturer, which are different to those of a retail shop or outlet, with regard to health issues, transport links, population density among others. Business location is important as it helps the business to access its target market or customers. A business can either gain or lose customers by the choice of business location they choose. A business location should be convenient for customers, employees, accessible and have all the appropriate utilities (Wikipeadia.org, 2012). Location can be a source of strategic competitive advantage as argued by McKendric (2000) because investment decisions are increasingly being driven by efforts to gain access to an array of location specific benefits that complement and even develop the assets of the firm such as specialized labor, critical suppliers or supportive infrastructure.

1.1.3 Grain Milling Industry in Nairobi and Mombasa

Grains are the seeds or fruits of various food plants including cereal grasses and in statutory and commercial usage other plants, for example the soybean (Merriam-Webster dictionary, 2012). Grain milling refers to the process of grinding grain to produce flour. For this process, people can use hand operated grain mills also known as hand grain mills or electric type mills that are semi-automatic (Merriam-Webster dictionary, 2012).

According to the Export Processing Zones Authority (EPZA, 2012), Kenya's economy largely depends on the agricultural sector, which accounted for 24% of the GDP in 2003. About 75% of Kenyans owe their livelihood to agriculture. Other than agro-production, the sector boasts a comparatively wide range of manufacturing industries, with food processing being the largest single activity (EPZA, 2012). About 66% of the manufacturing sector is agro based, and the agro-grain processing sub sector is one of the leading and well-established industries and it includes major cereal foods such as maize, wheat, rice, sorghum, millet and barley among others (MOA, 2012). EPZA adds that the grains sub-sector falls under the Crop Development Division, Ministry of Agriculture.

The National Cereals and Produce Board of Kenya (NCPB) established in 1985 under the National Cereals and Produce Board Act (Cap 338) of the laws of Kenya is mandated by the Government to regulate and control the marketing and processing of grains in Kenya (NCPB, 2012). It does this through licensing and regulating the key players in the sector, who include traders, farmers and millers among others (NCPB, 2012). Other players include the Kenya Seed Company, a Government parastatal that provides and certifies seeds before being offered for sale to farmers.

The industry is structured into producers who are mainly small-scale farmers with farms of less than 5 acres, and large-scale farmers who have farms of over 5 acres. All these sell their produce either independently to the domestic market or to millers or to produce boards like NCPB and NIB. Over 38% of Kenya's maize millers are located in Nairobi and Mombasa, ranging from large capacity (150 tons/24 hours) to medium capacity (50-150 tons/24 hours). The country's installed milling capacity is about 3,500 tons per day (FAO, 2012).

The majority of mills operate at capacities of between 100-300 tons per day (EPZA, 2011).

According to NCPB (2012) white maize constitutes the most important staple food for human consumption both locally and regionally. Availability of maize crop is a sign of food security. In Kenya, maize is used as human food, animal feed and is also a source of a large number of industrial products such as cooking oil, breakfast cereals etc (MOA, 2005). It's also an export crop whose demand is on the increase for production of bio-fuels. Rice is Kenya's third staple food after maize and wheat. Its rate of consumption has been growing rapidly and it is likely to overtake wheat overtime (FAO, 2011). Local production estimated at between 35, 000 -50,000 metric tons while consumption is estimated to be between 180,000 and 250,000 metric tons (Kiple, 2010). Beans are grown in almost all the regions in the country depending on the crop varieties. Beans are of many varieties i.e. rosecoco, mwitemania, red haricot and many other smaller varieties (NCPB, 2012).

Grain milling firms in Nairobi and Mombasa source their raw materials from different locations, both locally and internationally (NCPB, 2012). The local sources include the grain producing areas of the Rift Valley province, Nyanza and Western provinces in Kenya, while international sources include Tanzania, South Africa, Brazil and the USA. According to MOA (2009), a total of 14 million bags of grain had to be imported to meet grain shortfall in 2009, after only 23m bags were produced locally, against a consumption of 37 million (about 38%).

Over 21% of all the grain milling firms are located in Nairobi alone, while another 17% is located in Mombasa (EPZA, 2012). The port of Mombasa acts as an entry point for grains imported by millers, traders, relief agencies in East and Central African and South Sudan.

1.2. Research Problem

Assink (2009) states that approximately a century ago, factors such as transport costs and labor costs were considered to be the most important factors in the location choice. He adds that these two factors also played a central role in the (neo-classical industrial location theories from the beginning of the twentieth century, as stated by Weber and others (Assink, 2009).

Location advantages derive from several sources (Mowberry and Nelson 1999, as quoted by Mc Kendric et al. 2000). Nearness to resources like raw materials and skilled labor may reduce the cost of obtaining those resources. Of importance is also distance from the market, existing infrastructure and the nearness to supportive industries, which reduce the final price of the product and ultimately lead to price leadership (McKendric et al. 2000). Thus, location can play a crucial role in preserving the competitiveness of a business and allow it to concentrate on other vital functions like marketing, research and design and development.

According to the National Cereal and Produce Board (2009), Kenya is unable to produce all the grains it consumes annually, needing to import about 40% of grains to stave off starvation.

The grain milling industry is responsible for milling the grain to produce the flour for consumption (FAO, 2012). They meet their grain shortfalls by importing grain from overseas through the port in Mombasa. Since the grain is imported through the port of Mombasa, it could be assumed that grain milling firms located in Mombasa enjoy location strategic advantage over those located in Nairobi or elsewhere in Kenya in that they do not have to transport the imported grain long distances for milling. According to Nyangito (1998), the price of a 90kg bag of maize is marginally cheaper in Mombasa than in Nairobi. This may be explained by the fact that grain milling firms in Mombasa enjoy a competitive advantage which is accorded them by their relative nearness to the port of Mombasa.

In Kenya, several studies on competitive advantage and strategies employed by business organizations in a bid to outperform the competition have been undertaken under MBA projects. Wagura (1982) studied the location of additional depots in Nairobi Council's department, while Iseme (2006) examined the factors influencing the location determination by foreign investment firms in Kenya as Hapisu (2003) tried to establish if there existed a relationship between strategic planning and competitive advantage in the export processing zones in Kenya. Other competitive advantage studies include that of Kager (2003) who surveyed companies listed on the NSE to determine influences of functional experience on choice of competitive strategies.

Owuor (2005) surveyed major oil firms in Kenya in a bid to establish the link between strategic alliances and comparative advantages as practiced by major oil firms in Kenya. Another aspect of competitive advantage was examined by Dulo (2006) when he studied

the sources of competitive advantage and the link to the performance of firms in the Kenya sugar industry.

As such, no study has been done to establish if firms in the grain milling industry have location as a strategic competitive advantage, which represents a knowledge gap. This is in view of the fact that about 40% of grain milled in Kenya is imported while the rest is locally produced; meaning location to the milling plant plays an important role.

The study will seek to answer two questions, namely, if indeed location forms part the strategic competitive advantages employed by firms to outperform its competition, and secondly, what the non-location competitive strategies employed grain milling firms in Kenya are.

1.3. The Research Objectives

The study has two research objectives:

i) To determine the use of location by grain milling firms in Kenya as a basis for developing competitive advantage strategies.

ii) To determine the non-location basis of competitive advantages employed by grain milling firms in Kenya.

1.4. Value of the Study

A competitive advantage has been defined as an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices (Porter, 1985, Kurtus, 2007, Ehmke 2008). The ways that a company could use to generate competitive advantage include cost leadership, product differentiation, and superior location (Ehmke, 2008)

The NCPB (2012) holds that grain sufficiency in Kenya can be equated to food security in the country. The EPZA (2012), on the other hand, while highlighting the importance of agriculture to the economy (providing 24% of the GDP) mentions that the grain milling industry is well developed, and that 66% of the manufacturing sector is composed of food processing firms.

However, Kenya has an annual grain production deficit which the country meets through grain imports from the United States of America, South Africa and Zambia (NCPB, 2011). The imports into the country are done mainly through the port of Mombasa at the Kenya coast (GBHK, 2010). As such, it can be assumed that grain milling firms based at the Coast have a competitive advantage in terms of location, since they are based near the port and can access imported grain for milling faster due to shorter distance from the port to the firm. Thus, the first value to be derived from this study will be to establish if indeed grain milling firms based in Mombasa comparatively enjoy a competitive advantage over other firms in the same industry that are based further inland. This may be used as a guide to what is currently being experienced and thus assist formulate intervention programs to assist the sub-sector to grow.

Besides that, food security is vital for the development of other sectors in the economy. As has been pointed out by Habwe et al (2000), agricultural produce in Africa is blighted by the fact that it is perishable in the hot and humid climes of the continent and does not last long if left on its own. This means that there are few months of plenty during the rainy season followed by lean spells during the dry season. This brings into focus the need for food processing to enable food to be preserved for the lean seasons, which brings to the fore the importance of grain milling and grain milling firms. By studying the challenges facing the industry, we are able to deduce what can be done to improve the lot of this vital sector.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

A literature review is an account of what has been published on a topic by accredited scholars and researchers, and its purpose is to convey to your reader what knowledge and ideas have been established on a topic, and what their strengths and weaknesses are. (Taylor, 2010)

Competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors (Peteraf, 1993). These attributes can include access to natural resources or raw materials or to supplies, or access to highly trained and skilled personnel, markets, infrastructure or even supportive government legislation (Day and Wesley 1988 cited by Lau 2002).

This chapter will highlight works by other scholars on the concept of competitive advantage as employed by businesses to outperform their competitors. The chapter will also look at works by scholars on the relation of location to competitive advantage.

2.2 The Concept of Competitive Advantage

Competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors (Peteraf, 1993). These attributes can include access to natural resources or raw materials or to supplies, or access to highly trained and skilled personnel, markets, infrastructure or even supportive government legislation (Day and Wesley 1988 cited by Lau 2002)

According to the Robertson et al (2008), knowledge of and understanding of the environment is important to a firm in order be able to identify opportunities in the environment and react to take advantage of them. Porter (1980), identifies five factors that determine the nature and degree of competition in an industry namely the bargaining power of buyers, the threat of substitutes, the bargaining power of suppliers, rivalry among existing competitors and the threat of new entrants.

Ghemawat (1999) says that developing competitive strategies is also crucial to modern firms as it can allow the organization stay afloat and outperform the completion by making sure that the customer keeps going for their products. He adds that failure to adjust to rapid environmental changes will most likely lead the firm to missing business opportunities or fail to identify existing threats, leading to serious consequences for the firm.

Kurtus (2007) defines competitive advantage as a condition which enables a company to operate in a more efficient or otherwise higher-quality manner than the companies it competes with, and which results in benefits accruing to that company. He adds that competitive advantage is essentially a position of superiority on the part of the firm in relation to its competition in any of the multitude of functions/activities performed by the firm. The areas may include practically all functions/activities, which business firms normally carry out, such as marketing, research and development, production, finance, new product launch, brand management, factors like technology. Saloner et al (2001) hold that most forms of competitive advantage mean either that a firm can produce some service or product that its customers value than those produced by competitors or that it can produce its service or product at a lower cost than its

competitors. They add that in order to prosper, the firm must also be able to capture the value it creates. In order to create and capture value the firm must have a sustainable competitive advantage.

Besanko et al (2000) argued that when a firm earns a higher rate of economic profit than the average rate of economic profit of other firms competing within the same market, the firm has a competitive advantage in that market. Barney (2002) says that a firm experiences competitive advantages when its actions in an industry or market create economic value and when few competing firms are engaging in.

Therefore, the strategies for gaining competitive advantage as proposed by Porter (1980) include cost leadership, product differentiation and economic focus strategy.

2.2.1 Cost Leadership Strategy

According to Mikhail (2005), the objective of the cost leadership strategy to a firm is to enable it become the lowest-cost producer in the industry. He adds that this strategy is usually associated with large-scale businesses offering products with relatively little differentiation that are perfectly acceptable to the majority of customers. According to Porter (1980), the low cost leadership strategy attempts to increase market share by emphasizing low cost relative to competitors. He argues that the strategy gives the firm defence against rivalry from competitors because its lower cost means that it can still earn returns after competitors have competed away their profits through rivalry. Porter (1980) adds that a low cost position defends the firm against powerful buyers because buyers can exert power only to drive down process to the level of the next most efficient competitor. Low cost provides defence against powerful suppliers by providing more flexibility to cope with input cost increases. The factors that lead to a low cost position also provide

substantial entry barriers in terms of scale. Finally, a low cost position places the firm in favourable position vis-à-vis substitutes. Thus a low cost position protects the firm against all five competitive forces (Porter, 1980, pp. 35-6)

Further, Miller (1986) and Speed (1989) maintained that cost leaders try to supply a standard, no-frills, high volume product at the most competitive selling price. Kay (1987) further says that firms do not have to sacrifice revenue to be the cost leader since high revenue is achieved through obtaining a large market share. Lower prices lead to higher demand and, therefore, to a larger market share (Besanko et al., 1997). As a low cost leader, an organization can present barriers against new market entrants who would need large amounts of capital to enter the market (Ghemawatt, 2001). The leader then is somewhat insulated from industry wide price reductions (Porter, 1980)

In addition, Stuart (2007) stated that a cost leadership strategy is effectively implemented when the business designs, produces, and markets a comparable product more efficiently than its competitors. The firm may have access to raw materials or superior proprietary technology to lower costs (Stuart, 2007). There are many areas to achieve cost leadership such as mass production, mass distribution, the construction of efficient scale facilities (economies of scale), rigorous pursuit of cost reductions from experience (experience curve), tight cost and overhead control, capacity utilization of resources, avoidance of marginal customer accounts, cost minimisation in areas like research and development, service, sales force, advertising, jobs based on limited and specialized tasks, increase of repetition and routine tasks, short-term focus, low risk activity, and high degree of comfort with stability (Lippmann, 2003; Rumelt, 2003; Barney, 2002).

2.2.2 Differentiation Strategy

Reeves (1961) defines product differentiation as a marketing process that showcases the differences between products. He explains that differentiation looks to make a product more attractive by contrasting its unique qualities with other competing products. Successful product differentiation creates a competitive advantage for the seller, as customers view these products as unique or superior (Reeves, 1961). Piana (2003) says it is establishing clear distinction between products serving the same market segment, and is typically accomplished through effective positioning, packaging, and pricing strategies. Product differentiation is achieved by offering a valued variation of the physical product. The ability to differentiate a product varies greatly along a continuum depending on the specific product (Kotler, 1999). There are some products that cannot easily be differentiated for example fresh milk, timber or notebooks. Other products, however, can easily be differentiated, for example automobiles, batteries, electrical appliances among others (Kotler, 1999). Differentiation can occur by manipulating many characteristics, including features, performance, style, design, consistency, durability, reliability, or reparability. Differentiation allows a company to target specific populations.

Differentiation is about charging a premium price that more than covers the additional production costs, and about giving customers clear reasons to prefer the product over other, less differentiated products (Raturi, 2005). Differentiation advantage occurs when a firm delivers greater services for the same price of its competitors. They are collectively known as positional advantages because they denote the firm's position in its industry as a leader in either superior services or cost (Strategicadvantage.com, 2012). According to

businessinsight.com (2012), differentiation strategy is appropriate where the target customer segment is not price-sensitive, the market is competitive or saturated, customers have very specific needs which are possibly under-served, and the firm has unique resources and capabilities which enable it to satisfy these needs in ways that are difficult to copy. Georganas (2012) argues that since each consumer has some version that she prefers, it is influenced by a location and the consumer buys the product closest to her ideal if priced equally. Since consumers close to a producer are unlikely to buy from a different producer, firms have some degree of monopoly power. The process of identifying and building the brand image within a segment as to be foremost in a consumer's mind is called positioning (Dess et al, 2006). Positioning is all about consumers rather than the product, the challenge is to develop a positive perception in consumer mind.

2.2.3 Focus (Economic) Strategy

Basu (2011) states that in the focus strategy, a business aims to differentiate within just one or a small number of target market segments. The special customer needs of the segment mean that there are opportunities to provide products that are clearly different from competitors who may be targeting a broader group of customers. The important issue for any business adopting this strategy is to ensure that customers really do have different needs and wants

Lynch (2009) argues that a focused approach requires the firm to concentrate on a narrow, exclusive competitive segment (market niche), hoping to achieve a local rather than industry wide competitive advantage. There are cost focus seekers, who aim to

obtain a local cost advantage over competition and differentiation focuser, who are looking for a local difference.

Rumelt (2003) posits that the generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. He adds that the focus strategy has two variants, namely cost and product focus. In cost focus a firm seeks a cost advantage in its target segment, while in differentiation focus a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser's target segment and other segments in the industry (Rumelt, 2003). The scholar says explains that cost focus exploits differences in cost behaviour in some segments, while differentiation focus exploits the special needs of buyers in certain segments.

2.2.4 Strategic Competitive Advantage

Cuttin (1982) argues that a firm is said to have a strategic or sustainable competitive advantage when its competitors are unable to duplicate the benefits of the firm's strategy. In order for a firm to attain a strategic competitive advantage, its generic strategy must be grounded in an attribute that meets four criteria, including being of value to consumers, it must be rare, be inimitable (cannot be easily imitated or copied by competitors) and non-substitutable

Rowe et al (1989) say that a sustainable competitive advantage results, according to the resource-based view theory by Michael Porter, in the creation of above-normal rents in

the long run. Businesses that possess a durable competitive advantage are the ones that can be valued more accurately (strategicadvantage.com, 2012). Successful businesses become successful through in two methods, i.e they have the highest profit margins compared with their competition and they sell the highest volume of goods or services. Cuttin (1982) holds that businesses that have a durable competitive advantage are likely to be the businesses with the highest profit margins and inventory turnover.

2.2.5 Locational Sources of Competitive Advantage

According to Mckendrick et al (2000), location can also be a competitive differentiator. He explains that if you've got the only firm producing a particular product in a locality, then people will have buy from you unless they are willing to travel to another town to get the product you offer. This means you have an advantage over similar firms in the same industry located elsewhere. Kurtus (2007) states that location can be a source of competitive advantage to a firm if it is easily accessible and convenient to shoppers to visit. Firm location can also offer competitive advantage if it more accessible to suppliers and distribution channels, as well as supply of workers as compared to other competing firms in the same industry (Kurtus 2007)

Dunning (1980) as quoted by Peter (2003) maintains that locational advantage refers to existence of raw materials, low wages, special taxes or tariffs, markets among such other attributes. The more the immobile, natural or created resources, which firms need to use jointly with their own competitive advantages, favor a presence in a foreign location, the more firms will choose to establish themselves in that location (Peter, 2003).

Although it is true that transport costs have become less significant, and that new computer and telecommunication technologies have reduced the importance of location for production, locational advantage is still important in industrial location (Peter, 2003). According to investopedia.com (2012), location is one of the core component advantages of the eclectic paradigm theory that provides a three-tiered framework for a company to follow when determining if it is beneficial to pursue direct foreign investment. The eclectic theory paradigm is based on the assumption that institutions will avoid transactions in the open market when internal transactions carry lower costs. The other two advantages under this theory are Product or company specific advantages and Market internalization - meaning, it is better for the company to exploit a foreign opportunity itself, rather than through an agreement with a foreign firm.

Saloner (2003) adds that choosing the right location to establish your firm is very important since reversing the decision once it has been implemented can be a very costly affair. Reasons as to why location is of importance as consists of factors like labor, transport and communication links, the market or customers, the competitors, the image the firm wishes to portray, and culture and language (Saloner, 2003).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

Research methodology refers to the system of collecting data for research projects (Kothari, 2004). This chapter will thus deal with the research design that will be used for the collection and consequent analysis of data. It also includes an examination of the target population and the collection of data from that targeted population. Finally, this chapter will also include a narration of how the data will be analyzed, i.e data analysis

3.2 The Research Design

Research design is defined as the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari, 2004). This means that that research design is a systematic plan of what is to be done, how it will be done and how the data will be analyzed.

This research will use a cross sectional survey design of firms in the grain milling industry in Nairobi and Mombasa. The grain milling subsector is vital importance since according to the NCPB (2011), maize grain sufficiency in Kenya is equated to food security, making study of this subsector relevant. The descriptive survey design will be able to provide information on if location does provide a competitive advantage or not, and other non-location advantages employed by Kenyan grain milling firms.

3.3. Target Population

The target population will be all grain milling firms in Nairobi and Mombasa. This will include all the 15 grain milling firms in Nairobi and 12 in Mombasa. The study will cover

grain milling firms present in Nairobi and Mombasa as at April 2012 as listed by the relevant regulatory authorities in charge of the subsector, namely the Ministry of Agriculture, (MOA), NCPB, EPZA, and the Cereal Millers Association.

The sampling frame will consist of all the grain milling firms listed, meaning this study will be a census of the grain milling firms in Nairobi and Mombasa. This method was successfully used by Lekolool (2010), Mburu (2007) and Kihanya (2008) in carrying out similar studies in Kenya.

3.4 Data Collection

Primary data will be collected by use of semi-structured questionnaires containing both open-ended and closed questions covering locational and non locational strategies employed by grain milling firms in Nairobi and Mombasa to gain competitive advantage over their rivals. The questionnaire will consist two sections, A and B. Section A will consist of classification of variables like size, age, nature of the business among others, while section B will be concerned with business competitive advantage strategies. The questionnaires will be used because they can help in the collection of large volumes of data within a short period of time and are easy to administer. The respondents will include managing directors, operations managers and sales managers who formulate firm strategy. Face to face interviews and drop and pick method will be used administer the questionnaire. Follow up will be through personal visits, telephone calls and e-mail to enhance response rate.

3.5 Data Analysis

After the data has been edited for accuracy, completeness and consistency, analysis will commence. This will be done using descriptive statistics for coding and entering into the SPSS (Statistical Package for Social Sciences). A narrative summary of open ended questions will be made. The findings will be made presented using tables, frequencies, graphs and percentages.

After analysis, the output will be expected to highlight whether location of grain milling firms in Kenya offers a comparative location strategic competitive advantage or not, or whether that factor in inconclusive. The output will also be expected to shed light on the current challenges facing the grain milling firms in Kenya in their quest to not only remain in business but also to successfully grow the businesses despite harsh economic environment.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents an analysis of the data collected from a total of 31 respondents from purposively selected grain milling companies in Nairobi and Mombasa. Data analysis and report of findings was done using descriptive statistics in the form of tables, frequencies and percentages. This chapter will focus on the profile of the grain milling firms, the two objectives of the study, and finally will present a discussion of the findings.

4.2 Profile of the Firms Studied

The profile of a firm refers to the various defining elements which define the company and include the geographical location of firm, the number of years it has been in operation, the number and skill level of its employees, the markets it serves, the products it offers and its ownership. The purpose of examining the profiles of the firms under study was in order to understand their unique characteristics in the industry. Data was collected by the administration of questionnaires to operations and sales managers located in those firms. About five items were used to gather information on the firm's background characteristics in an attempt to assess their level of understanding and involvement in the process of operation of grain milling companies in Nairobi and Mombasa.

4.2.1 Location of Company

The location of a company refers to its geographical situation or where it is premised. Location is an important profile and is the crux of this study i.e to establish if grain milling firms in Nairobi and Mombasa derive a competitive advantage based on where they are located. This profile is important as the physical location of a business premise can place it near other variables like markets, skilled labor, relevant technology among other which may have a bearing on its success. Data was collected from respondents by using a close ended questionnaire. The study found that grain milling firms purposively selected for this study constituted of 19 [61.3%] from Nairobi and 12 [38.7%] from Mombasa meaning that there are more grain milling firms in Nairobi region than Mombasa region in Kenya. This information is also illustrated by Table 1.

Table 1. Location of Company

Company Location	Number	Percentage
Nairobi	19	61.3%
Mombasa	12	38.7%
Total	31	100%

Source: Research Data

4.2.2 Years in Operation

This profile refers to the number of years the company has been in existence since its inception or registration. It is indicative the relative experience the company has in terms of successfully managing the challenges of operating in the grain milling industry and lessons learned in order to improve and general understanding of the business. Data was

captured using semi-structured questionnaires and according to the respondents, majority of the grain milling firms 26 [83.9%] have been in operation for a period of over 10 years while the remaining 5 [16.1%] have been in operation for a period ranging between 6 to 10 years as indicated below. This means that a majority of the companies have been in existence for relatively long time which may endow them with a better understanding of the business. This is illustrated by Table 2

Table 2. Number of Years in Operation

Years in operation	Number	Percentage
More than ten years	26	83.9%
Less than ten years	5	16.1%
Total	31	100%

Source: Research Data

4.2.3 Company Share Ownership

The shareholding of a company determines ownership since shares represent a fraction or percentage of ownership of a company. Examination of this profile in a company serves to provide answers to the demography of people who have invested in grain milling firms in Nairobi and Mombasa.

The firms sampled using semi-structured questionnaires were found to be owned by majority local investors for 28 [90.3%] respondents, local/foreign investor owned for 2 [6.5%] respondents and Government-local investor for 1 [3.2%] respondent. This information is illustrated by the bar graph figure 2 and it shows that most firms in the grain milling industry in Nairobi and Mombasa are owned by private local investors,

followed by a mix of foreign and local ownership and lastly by Government local investors ownership. This is as shown by Table 3 below.

Table 3. Share Ownership

Shareholders	Number	Percentage
Majority local investors	28	90.3%
Local/foreign investors	2	6.5%
Government/local investor	1	3.2%
Total	31	100%

Source: Research Data

4.2.4 Number of Employees

The number of employees refers to both skilled and skilled and semi-skilled workers working in the grain milling industry in both Nairobi and Mombasa. The number of workers employed in a firm is indicative of the size of the firm since a large firm is more likely to need more workers than a smaller one. Therefore, a company with more employees is likely to be bigger in terms of size and operational output than one with fewer employees. The data on number of employees working in the firms under study was collected by use of semi structured questionnaires. The findings indicated that the firms sampled employed considerable number of skilled and semi-skilled personnel ranging between 50 and above.

This information is summarized by the Table 4.

Table 4 Number of Employees

Employees	Number	Percentage
50-75	1	3.2%
76-100	8	25.8%
Over 100	22	71%
Total	31	100%

Source: Research Data

According to the information contained in Table 4, majority of the firms, 22 [71.0%] had over 100 employees, 8 [25.8%] had between 76 and 100 employees while only 1 [3.2%] had between 50 to 75 employees. This means that of the firms studied, a majority (71%) had over 100 employees, as compared to only 3.2% which had between 50 to 75 employees.

4.2.5 Market Served

The market that a firm serves refers to the population that consumes the products and services that are offered by that particular firm. An examination of the market served by the grain milling firms in this study was of importance since customer characteristics like demand, preference, age among others often determine how much of the company products they will consume. Thus the firm will try to serve the market in a manner that ensures maximum possible consumption of its products i.e implementing strategies to achieve higher sales.

After data was collected using open ended questions, the grain milling firms under study were found to serve various markets which included local Nairobi and Mombasa, regionally and even globally as is summarized in Table 5.

Table 5 Market Served

Location	Frequency	Percent
Local Nairobi	9	29.0
Local Mombasa	10	32.3
Regional	9	29.0
Global	3	9.7
Total	31	100.0

Source: Research Data

Table 5 which contains a summary of the market served by the grain milling firms shows that according to respondents, 9 [29.0%] firms served predominantly Nairobi, 10 [32.3%] served predominantly Mombasa area, 9 [29.0%] others served the regional market with the remaining 3 [9.7%] served the global market. This means that only a relatively small number of firms under study (9%) serve global markets, whereas 29% served a regional market.

4.3 Location as a Basis of Competitive Advantage

The geographical location of a business refers to the physical situation and its distance from factors like raw materials, markets, relevant technology, transport and communication links and skilled labor. The study sought to establish if grain milling

firms in Nairobi and Mombasa use their location as a basis for developing competitive advantage.

To assess the respondents' perception on the use of location by grain milling firms in Nairobi and Mombasa, Kenya as a basis for developing competitive advantage strategies, 5 factors namely raw materials, markets, relevant technology, transport and communication links and skilled labor were used in view of the location of the firms and if the lead to competitive advantage either by bestowing cost leadership or allow for differentiation, or if they encourage economic focus by the company.

4.3.1 Location and Source of Raw Material

Location and source of raw material refers to location of a firm in relation to nearness of raw materials. The purpose for examination of the location of raw materials to the location of grain milling firms is importance since it could reflect on the ease or difficultly of obtaining raw materials and thus use fact as a competitive advantage through cost leadership. Data was captured using a semi structured questionnaire and summarized in Table 6.

Table 6 Location and Source of Raw Materials

Response	Frequency	Percentage(%)	Cumulative
Strongly Disagree	3	9.6	3
Disagree	6	19.4	9
Not Sure	15	48.4	24
Agree	7	22.6	31
Strongly Agree	0	0	0
Total	**31**	**100**	

Source: Research Data

Table 6 shows the summary of the analyzed data on the respondents' views on the use of location as a basis for developing competitive strategies by grain milling firms in Nairobi and Mombasa in relation to locating of a business with respect to raw materials. Only 3 [9.6%] of the respondents strongly felt that locating a grain milling firm with raw materials in mind did not confer any competitive advantage. However, 6 [19.4%] respondents disagreed that competitive advantage could be derived by a grain milling firm with regard to location versus raw materials. The majority of the respondents 15[48.4%] were indifferent. But 7[22.6%] of the respondents agreed that locating the firm with regard to raw materials did provide a competitive advantage. No respondent [0%] felt strongly about this variable. This ultimately gave the item a positive average percentage index of 20.47% and an overall mean of 2.925. This means that according to a majority of the respondents, a firm's location in relation to sources of raw materials is not a basis for developing competitive strategies.

4.3.2 Location and Availability of Skilled and Semi-Skilled Labor

This refers to the location of a grain milling firm in relation to where workers are found. It aims to establish if firms are located where there is a pool of laborers or if this is factor does not provide any competitive advantage. Data was collected by use of semi-structured questionnaires, and the findings summarized as below:

Table 7 Location and Availability of Skilled and Semi-Skilled Labor

Response	Frequency	Percentage (%)	Cumulative
Strongly Disagree	4	12.9	4
Disagree	12	38.7	16
Not Sure	10	32.3	26
Agree	4	12.9	30
Strongly Agree	1	3.2	31
Total	**31**	**100**	

Source: Research Data

A similar observation was made with regard to location of a business versus availability of skilled and semi-skilled labor since only a minority of the respondents, 4 [12.9%] considered a firm's current business location in relation to the availability of skilled and semi-skilled labor to affects the final prices of the firm's products. Further, only 12 [38.7%] respondents agreed that its location in relation to the availability of skilled and semi-skilled labor would allow it to focus on the production of a single product more effectively and lastly only 11 [35.5%] respondents agreed that the current business location in relation to the availability of skilled and semi-skilled labor affects its ability to produce different products. The majority in this case had a contrary opinion giving the

item an average percentage index of 29.03% with a mean of 3.140 . This means that a majority of the respondents also do not consider the location of a business in relation to availability of skilled and semi skilled labor to be the basis for developing competitive strategies probably due to the ease with which skilled and semi skilled labor for grain milling firms can be source from elsewhere.

4.3.3 Location and Relevant Technology

Technology refers to scientific knowledge used in practical ways in industry. Technology may be used to improve the quality of products and to reduce the price of those products and thus provide a source of competitive advantage. Data was captured by use of semi-structured questionnaire and presented on Table 8

Table 8 Location and Relevant Technology

Response	Frequency	Percentage(%)	Cumulative
Strongly Disagree	1	3.3	1
Disagree	4	12.9	5
Not Sure	4	12.9	9
Agree	19	61.3	100
Strongly Agree	3	9.6	0
Total	**31**	**100**	

Source: Research Data

With regard to business location and technology, majority of the respondents 19 [61.3%] considered availability of relevant technology to ultimately affect the final price of a firm's products and give it competitive advantage, 22[70.9%] either agreed or strongly

agreed with the suggestion that availability of relevant technology influences a firm to produce many different products for the market. This is in comparison to 5 [16.2%] firms which disagreed or strongly disagreed that being located near relevant technology did not provide any competitive advantage. The item has an average percentage index of 65.57% and a mean of 3.6344. This means that according to a majority of respondents, availability of relevant technology is a basis for developing competitive strategies for grain milling firms in Kenya. This finding concurs with that of Kurtus (2007).

4.3.4 Location and Markets

A market refers to the population that might buy products of a grain milling firm. The ultimate of production in any firm is to be able to sell its products and services to the market. Data for this factor was also captured using semi-structured questionnaire and detailed in Table 9

Table 9 Location and Markets

Response	Frequency	Percentage (%)	Cumulative
Strongly Disagree	0	0	0
Disagree	6	19.4	6
Not Sure	9	29.0	15
Agree	13	41.9	28
Strongly Agree	3	9.7	31
Total	**31**	**100**	

Source: Research Data

The respondents also had a favorable opinion to grain milling business location in relation to the core markets. This is manifest in the fact that 16 [51.6%] of the respondents agree or strongly agree that being located near the market for a firm's products allows the firm to reduce transport costs, and thus prices of its products. 9 [29%] respondents were indifferent when asked if being located near markets for a firm's products was a source of competitive advantage. 6[19.4%] of the firms interviewed disagreed that there was any competitive advantage to be gained by locating a grain milling firm near a market. allows it to concentrate on the production of a single product and 10 [32.3%] respondents considered being located near markets for a firm's products allows the firm to diversify or increase the number of products they offer. The item registered an average percentage index of 58.73%. This means that for a majority of the respondents, a grain milling firm's location relative to its markets is a basis for development of competitive strategies.

4.3.5 Location and Transport and Communication

Transport and communication refers to the various ways through which grain milling firms in Nairobi and Mombasa move factors of production like raw materials and labor and finished products from where they are to where they are needed. Transport may thus be considered to be of importance. Data for this factor was collected using semi-structured questionnaire. The results is as summarized on Table 10

Table 10 Location and Transport and Communication

Response	Frequency	Percentage (%)	Cumulative
Strongly Disagree	0	0	0
Disagree	2	6.5	2
Not Sure	4	12.9	7
Agree	20	64.5	26
Strongly Agree	5	16.1	31
Total	**31**	**100**	

Source: Research Data

Finally for this objective, the respondents appeared to have a favorable opinion about the relevance of location in relation to transport links as a basis for developing competitive strategies for grain milling firms in Kenya. This is because a majority of the respondents, 25 [80.6%] agreed or strongly agreed that a grain milling firm's location in relation to transport and communication links is of vital importance since transport links are required to bring in raw materials and access markets. This is compared to 2[6.5%] who were in disagreement and 4[12.9] who were not sure. The item registered an average percentage index of 67.7%. This means that for a majority of the respondents, the location of a grain milling firm relative to transport and communication links is an important competitive strategy worth of consideration.

The foregoing information indicates that location is indeed a source of competitive advantage for grain milling firms in Nairobi and Mombasa. This is illustrated in Table 11

Table 11 Mean Ranking of Locational Factors

Response	Mean Ranking	Standard Deviation
Raw materials	3.23	0.717
Skilled/Unskilled Labor	3.32	0.541
Markets	3.42	0.886
Relevant technology	3.74	0.999
Transport and Communication	4.03	0.752

Source: Research Data

4.4 The Non-Location Bases of Competitive Advantage

The non-location bases of competitive advantages employed by grain milling firms in Kenya refers to methods that firms engage in order to outperform the competition in the grain milling industry in Nairobi and Mombasa. The non locational factors are considered in order to have a clearer picture of strategies employed by firms to develop competitive strategies. A total of five statements or propositions were used to assess respondents take on issues relating to the non-location basis of competitive advantages employed by grain milling firms in Nairobi and Mombasa, Kenya. A summary of the research findings is contained in Table 12

Table 12 Non-Location Bases of Developing Competitive Strategies

	SD	D	NS	A	SA	Total
Product Quality	5	10	10	70	5	100%
Product diversification	4	12	34	45	5	100%
Brand Power	5	16	15	55	9	100%
Product Packaging	5	11	10	67	7	100%
Firm Image	3	5	12	72	8	100%

Source: Research Data

From Table 11 which contains information of the respondents take on issues relating to the non-location basis of competitive advantages employed by grain milling firms in Nairobi and Mombasa, Kenya it is evident that majority of the respondents, 70% consider product quality as a factor that affect grain milling firms profitability. Likewise, apart from only 1 [3%] respondents who had a strong contrary opinion, the remaining majority 67% agreed or strongly agreed with the sentiments that suggested that it is useful to have many products in the market i.e product diversification. Further, 16 [51%] respondents felt that brand power of a firm's products as compared to the competition's are an advantage unlike the remaining 21% who had a contrary opinion, while the rest were indifferent.

A sizeable number of the respondents, i.e 67% were in agreement that the packaging of a product influences the sales of that product and thus construes a competitive advantage. Lastly, the same supportive finding was also seen with regard to the proposition that suggested that the image the public has about a firm influences whether or not they purchase the firm's products since a majority of the respondents, 81% either agreed or

strongly agreed with the proposition. The objective was found to have an overall mean rating of 61.8%. This means that according to the respondents, a grain milling firm's quality of products, product diversification, the firms image, its brand power and packaging are some of the non-location basis of competitive strategies they employ. This is illustrated in Table 13 below

Table 13 Mean Ranking of Non-Locational Factors

Response	Mean Ranking	Standard Deviation
Brand Power	3.90	1.076
Product diversification	3.97	0.752
Product packaging	4.32	0.475
Product quality	4.48	0.508
Firm Image	4.48	0.508

Source: Research Data

4.5 Discussion of Findings

The objective of the study was to establish if location is used as a basis of competitive advantage for grain milling firms in Nairobi and Mombasa. A second objective was to determine the non locational bases of competitive advantage used by the firms. The study targeted respondents in grain milling firms which are based in both Nairobi and Mombasa. Data was collected by conducting interviews using open ended questions, semi-structured questions and open ended questions. An analysis of the collected data using SPSS was carried out and the results have been presented using charts, tables, bar graphs and figures.

From the results, it can be seen that a majority of firms consider location as a basis of competitive advantage. However, some locational factors are considered more influential than others, but essential nonetheless. This finding is consistent with that of Lynch (2009), who argues that a focused approach requires the firm to concentrate on a narrow, exclusive competitive segment (market niche), hoping to achieve a local rather than industry wide competitive advantage. There are cost focus seekers, who aim to obtain a local cost advantage over competition and differentiation focuser, who are looking for a local difference.

The findings also show that most firms consider the location factor of good transport and communication as one of the important to their competitive strategy, with the highest mean rank. This may be due to need to bring in raw material and ship out the products, as no organization is able to survive in isolation. This finding is consistent with the findings of Rumelt (2003) who posits that the generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others

Availability of relevant technology is also highly regarded by the grain milling firms in Nairobi and Mombasa, probably since new technology provides a way to produce high quality goods at lower prices and thus gain a competitive advantage. This finding is in agreement with the findings of Cuttin (1982), who argues that a firm is said to have a strategic or sustainable competitive advantage when its competitors are unable to duplicate the benefits of the firm's strategy. In order for a firm to attain a strategic competitive advantage, its generic strategy must be grounded in an attribute that meets four criteria, including being of value to consumers, it must be rare, be inimitable (cannot

be easily imitated or copied by competitors) and non-substitutable. Having patents to strategic technology and processes can that offer firms competitive advantage over their rivals.

Nearness to markets is also of importance since this reduces transport cost incurred in moving the products from the business premise to the clients. However, many of the organizations interviewed did not deem location of raw materials and skilled/unskilled labor of great importance as the earlier mentioned variables. This is probably due to the fact that Kenya has a sizeable workforce of skilled and semi-skilled workers, which may readily migrate to where they can sell their labor. As for raw materials, competition amongst suppliers may lead to the suppliers transporting their own produce to the premise of the grain miller, thus making raw materials availability not a strategy for competitive advantage. This finding is consistent with the findings of Mckendrick et al (2000), Kurtus (2007) and Peter (2003) who stated that location can be a source of competitive advantage to a firm if it is easily accessible and convenient to shoppers to visit. They added that firm location can also offer competitive advantage if it more accessible to suppliers and distribution channels, as well as supply of workers as compared to other competing firms in the same industry.

An analysis of the contribution of non locational factors shows that they also contribute to the formation of competitive advantage for grain milling firms in Nairobi and Mombasa to varying degrees as illustrated in table 12.

From the study findings, it can be seen that firms highly value the image they present to the public since it probably translates to the level of confidence and trust the public has in

the company. This may greatly determine if they buy the products of the company or not. This study finding is consistent with that of Piana (2003) who found that establishing clear distinction between products serving the same market segment is typically accomplished through effective positioning, packaging, and pricing strategies.

The result also show that the same level of trust is bestowed on product quality as a strategy for competitive advantage since it has the same mean ranking to firm's image. They were followed as a strategy for competitive advantage by product packaging and product diversification. This finding of is consistent that of Reeves (1961) who said that successful product differentiation creates a competitive advantage for the seller, as customers view these products as unique or superior

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

In this chapter, a summary of the research findings, conclusions, recommendation and suggestion for further research will be given. The main purpose of this study was to establish the use of location as a basis for competitive advantage by grain milling firms in Nairobi and Mombasa. Data for analysis was obtained through application of structured questionnaires to respondents in management positions within the grain milling firms in Kenya with specific reference to firms located within Nairobi and Mombasa regions of Kenya.

5.2 Summary

The study sought to find out the level of use of location and non-location issues by grain milling firms in Nairobi and Mombasa, Kenya, as a basis for developing competitive advantage strategies. The sample consisted of 31 respondents of grain milling firms in Nairobi and Mombasa. The sampled employees included accountants, human resource managers, operations managers, sales managers, marketing managers and sales assistant. The study found out that:

A grain milling firm's location in relation to sources of raw materials is not a basis for developing competitive strategies. This finding is attributable to the fact that a well developed transport and communication network can ensure the sourcing of raw materials from different locations within and without the country. Secondly, grain milling

firms in Nairobi and Mombasa are consumers to raw materials produced by commercial firms. Thus the producers in various instances undertook to transport their products to the grain milling firm, reliving the grain millers of the burden of seeking for the raw materials.

Secondly, the study established that the location of a business in relation to availability of skilled and semi skilled labor is not the basis for developing competitive strategies. According to the respondents, both Nairobi and Mombasa had an abundance of skilled and semi-skilled workers seeking to sell their labor to the grain millers. The workers indicated a willingness to work at any location the grain miller was based. This situation is further reinforced by the fact that the unemployment rate in Kenya is at 55% (World Bank, 2012), meaning there are more job seekers than jobs. This works to the advantage of grain milling firms in Nairobi and Mombasa as far as hiring of skilled and semi-skilled laborers is concerned. Thus, location in relation to workers is not considered as a basis for developing competitive advantage by grain milling firms under study.

The study further established that for a majority of respondents, availability of relevant technology is a basis for developing competitive strategies for grain milling firms in Nairobi and Mombasa. Grain milling involves grinding grain to produce flour. For this process, people can use technology that includes hand operated grain mills also known as hand grain mills or electric type mills that are semi-automatic. This means that the more advanced the technology employed by a grain milling firm, the more it can produce required quality flour at reduced costs in terms of labor and electricity. These reduced costs can be passed on to the consumer in terms of lower prices for high quality goods,

giving the grain milling firm a competitive advantage over rivals in the industry still using inferior technology.

For a majority of the respondents, the location of a grain milling firm relative to transport and communication links is an important competitive strategy worth of consideration. This is because transport and communication links connect the firm to its suppliers and its markets, as well as to workers. A good transport link allows the firm to obtain raw materials from the producers and also to move finished goods to the market, besides ensuring workers move to and fro with least difficulty. The study found that some of the firms under study (38.7%) also served regional and global markets, meaning that supportive transport and communication infrastructure is in place.

Another finding of the study is that a grain milling firm's quality of products, its product market price relative to competitor firms, the firms image, its brand power and packaging are some of the non-location basis of competitive strategies they employ. According to a majority of the respondents (72%), the quality of firm products allowed it to create and retain a captive market. Thus product quality was a source of competitive advantage for grain milling firms under study. It is closely tied to the firm image, meaning that if customers associated quality products to a positive image of a firm, they could then be influenced to buy other products from that company, believing that they have good quality as well.

Product packaging is also a source of competitive advantage since the respondents were keenly aware that customers tended to tie good packaging to high quality and vice versa. The study also established that brand power represented a basis of competitive advantage for grain milling firms in Nairobi and Mombasa since it allowed the firms to target

specific market niches. Different brands are positioned at specific customers, for example for gruel (porridge), maize meal, chapatti, etc. Thus when a customer needs a specific product e.g. to make chapatti, his/her mind quickly remembers a specific brand for that particular purpose.

5.3 Conclusions of the Study

Conclusions of the study findings were made based on the relationships that were established for each of the different research objectives. From the foregoing summary, it can be concluded that availability of relevant technology and location of a grain milling firm relative to transport and communication links are some of the location based basis for developing competitive strategy for grain milling firms in Nairobi and Mombasa. Overall, the study established that location is indeed a basis for competitive advantage for grain milling firms in Nairobi and Mombasa.

On the other hand, quality of products, products' market price relative to competitor firms, the firm's image, its brand power and packaging are some of the non-location basis of competitive strategies grain milling firms employ.

5.4 Recommendations for Further Research

The study limited itself to Nairobi and Mombasa which are the two largest cities in Kenya. Further research can be conducted in other cities in the country to determine if the results are consistent or inconsistent with the study findings. Secondly, further studies can be conducted on how the different towns compare in their strategies i.e comparative studies of grain milling firms in Nairobi and Mombasa.

REFERENCES

Barney, J (2002), *Gaining and sustaining competitive advantage*. 2nd ed. Reading, Massachusetts, Addison Wesley.

Besanko , J (2002), *Economics of strategy* 2nd Ed. New York John Wiley and Sons

Businessinsight.com (July 2011). *The benefits and drawbacks of food manufacturing:* Retrieved on 25th April 2012 from http://www.businessknowledgesource.com/manufacturing/html

Dess, G, Watt, T. (2006), *Strategic management: Text and cases.* Boston: McGraw-Hill Irwin,

Ehmke, C, (2008) *Strategies for competitive advantage*. Wyoming. University of Wyoming

Mikhail C. (1997), *The Globalization of Poverty,* London, Zed

Dulo, G. (2006), *The sources of competitive advantage and the performance of firms in the Kenya sugar industry.* Unpublished MBA project, University of Nairobi

Fischer, S. (1989), The role of agricultural education in food security*: FAO Research, extension and training division Journal*. Retrieved on 27th April 2012 from http://www.fao.org/sd/fsdict/fbdect/FSK012.htm

Frumkin, N. (1994), *Guide to Economic Indicators*: New York. Sharpe.

Ghemawat P and Spence A. M. (1999), *Strategy and the business landscape.* Reading, PA. Addison Wesley

Habwe, F. O, Walingo K.M. (2010), *Food processing and preparation technologies for sustainable utilization of African indigenous vegetables for nutrition security and wealth creation in Kenya.* Chapter 13. Retrieved from http://www.iufost.org/publications/books/ documents/HabweetalChapter13.pdf

Hapisu, G. (2003), *Relationship between strategic planning and competitive advantage in the export processing zones in Kenya.* Unpublished MBA project, University of Nairobi

Iseme, M (2005), *An empirical study of location determinants of foreign direct investments in Kenya* . Unpublished MBA project, University of Nairobi

Jessop D and Morrison A. (1994), *Storage and supply of materials*: Essex. Pearson Educational Limited. Pg 6-9

Kay, J. (1993), *Foundations of Corporate Success*. Oxford University Press.

Kotler, P. (1999), *Principles of Marketing* 8th ed. Upper Saddle River, NJ: Prentice Hall, 1999.

Kurtus, R. (2007), *Using location for a competitive advantage in business:* Retrieved on 17May 2012 from http://www.school-for-champions.com/competition/business_location_advantage.htm

Kenya National Bureau of Statistics. (2011), *Quarterly economic performance release 2011*. Retrieved on 29th April 2012 from http://www.knbs.or.ke/pdf/2nd_

Kothari, C.R. (2004), *Research methodology. Methods and Techniques.* Chicago, World Book.

Lynch C. (1999), *Competitive Advantage: Creating and Sustaining Superior Performance by Michael E. Porter 1980.* New York. Sharpe

McKendrick D, Doner R.F and Haggard S. (2000), *From Silicon Valley to Singapore: Location and Competitive Advantage in Hard Disk production.* Stanford University Press, pages 106-107

Nyangito H and Ndirangu L. (1997), Towards Maize Security in Kenya: An Evaluation of the self sufficiency strategy. *Institute of policy research analysis.*

Oluoch K. O. (2007), *Distribution strategies pursued by food processing firms in Nairobi.* Unpublished MBA project, University of Nairobi

Owuor, T. (2005), *Strategic alliances and competitive advantages. The case of major oil companies in Kenya.* Unpublished MBA project, University of Nairobi

Peteraf, M. A. (1993), *The cornerstones of competitive advantage: A resource-based view.*
Strategic Management Journal, New York, Wiley and Sons4, pp. 179–191

Piana, V. (2003), *Competitive Advantage: Strategy and Style.* Retrieved on 23 April 2012 http://www.referenceforbusiness.com/management/Bun-Comp/Competitive-advantage.html.

Raturi, S. and James R. E. (2005), *Principles of Operations Management.* Mason, OH: Thomson South-Western.

Rono, J. K. (2002), Structural adjustment programmes in Kenya: The impact of the structural adjustment programmes on Kenyan society, *Journal of Social Development in Africa Vol*

Saloner. G, Shepard A and Podolny J. (2001), *Strategic Management*. John Wiley & Sons, New York

Shin N. (2001), Strategies for competitive advantages in electronic commerce. *Journal of Electronic Commerce Research*, VOL. 2, NO. 4, Pace university

The World Bank. *Indices and Gross figures for Kenya:*, Retrieved on 23 April 2012, from http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/KENYAEXTN/0,,menuPK:356536~pagePK:141132~piPK:141109~theSitePK:356509,00.html

endix 1

UNIVERSITY OF NAIROBI

MOMBASA CAMPUS

Telephone: 020-2059161
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 99560, 80107
Mombasa, Kenya

DATE: 13TH JULY, 2012

TO WHOM IT MAY CONCERN

The bearer of this letter, **Amos Ochieng Ojwang** of Registration number **D61/76135/2009** is a Master of Business Administration (MBA) student of the University of Nairobi, Mombasa Campus.

He is required to submit as part of his coursework assessment a research project report. We would like the student to do his project on **Location as a basis of Competitive advantage for Grain Milling Firms in Nairobi and Mombasa.** We would, therefore, appreciate if you assist him by allowing him to collect data within your organization for the research.

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

Thank you.

UNIVERSITY OF NAIROBI MOMBASA

ZEIPHANIA N. OGERO
ADMINISTRATIVE ASSIST. SOB/ MOMBASA CAMPUS

QUESTIONNAIRE

PART A: CLASSIFICATION VARIABLES

1. Your name.....(Optional)
2. Position held.....
3. Name of your company.....
4. Where is your company located in Kenya? .....
5. How long has your company been in operation in this location (please tick one)

   Less than 1 year ( ) 2 - 5 years ( ) 6 – 10 years ( ) Over 10 years ( )

6. Based on the categories below, please indicate the ownership of your firm in terms of shareholding size.

   Majority Government ( ) Government and local investors ( ) Majority local investors ( ) Local and foreign investors ( ) Majority foreign investors ( )

7. How many employees do you have working in your firm

   Less than 50 ( ) 50-75 ( ) 76 – 100 ( ) Over 100 ( )

8. Please indicate your department.....
9. Kindly list the products and services you offer

   a)..... b)..... c)..... d).....

10. What markets do you serve?

Local Nairobi ( ) Local Mombasa ( ) Regional ( ) Global ( )

11. What is your market share as a percentage?

Less than 5% ( ) 5-10% ( ) 11 – 30% ( ) Over 30% ( )

PART B: LOCATIONAL AND NON-LOCATIONAL COMPETITIVE STRATEGIES

Kindly indicate, by ticking on the boxes on the right, the extent to which you disagree or agree with the propositions on the left. Ticking the box marked 1 means you strongly disagree (SD), 2 means you disagree (D), 3 means you are indifferent or not sure (NS), 4 means you agree (A), and 5 means you strongly agree (SA).

Question/ Proposition	Ranking				
13. To what extent do you think that your firm's location in relation to sources of raw materials affect the price of final products?	1	2	3	4	5
14. To what extent do you think that your firm's location in relation to sources of raw materials encourage you to produce different products?	1	2	3	4	5
15. To what extent do you think that your firm's location in relation to sources of raw materials allow you to focus on producing a single product?	1	2	3	4	5
16. Does your current business location in relation to the availability of skilled and semi-skilled labor affect the final prices of your products?	1	2	3	4	5

17. Do you believe that your business location in relation to the availability of skilled and semi-skilled labor allow you to focus on the production of a single product more effectively?	1	2	3	4	5
18. Does your current business location in relation to the availability of skilled and semi-skilled labor affect your ability to produce different products?	1	2	3	4	5
19. In your opinion, does availability of relevant technology ultimately affect the final price of your products?	1	2	3	4	5
20. In your opinion, does technology influence you to produce many different products for the market?	1	2	3	4	5
21. In your opinion, does availability of relevant technology allow you to focus on the production of a single product better than other products?	1	2	3	4	5
22. Does being located near the market for your products allow you to reduce production costs, and thus prices of your products?	1	2	3	4	5
23. Does being located near markets for your products allow you to concentrate on the production of a single product?	1	2	3	4	5
24. In your opinion, does being located near markets for your products allow you to diversify or increase the number of products you offer?	1	2	3	4	5
25. Do you think that your location in relation to transport and communication links affects the prices of your products?	1	2	3	4	5

26. Do you think that your location in relation to transport and communication links allow you to offer different products to the market?	1	2	3	4	5
27. Do you think that your location in relation to transport and communication allow you to focus on producing a single product well?	1	2	3	4	5
28. Do you think that factors like the quality of your products affect your profitability?	1	2	3	4	5
29. Kindly indicate how useful you believe it is to have many products in the market	1	2	3	4	5
30. Do you believe that having lower costs for your products as compared to the competition is an advantage?	1	2	3	4	5
31. To what extent do you support the argument that the brand power of a product influences the sales of that product?	1	2	3	4	5
32. Do you believe that the image the public has about your firm influence whether or not they purchase your products?	1	2	3	4	5
33. To what extent do you think that your firm's location influences your customers to purchase your products as compared to buying from another firm?	1	2	3	4	5

34. In your opinion, does the packaging of your products have an influence on a customer's decision on whether to buy your product or not?	1	2	3	4	5

Appendix 2

LIST OF GRAIN MILLING FIRMS IN NAIROBI AND MOMBASA

The population sample is of grain milling firms in Kenya (listed by location), but because of some limitations, the sample frame could only be limited to be those firms listed by the EPZA, NCPB, MOA, The Yellow Pages and the Nation Business Directory, 4th Edition.

1	NAME	LOCATION
2	ATTA (K) LTD	MOMBASA
3	KITUI FLOUR MILLS LTD	MOMBASA
4	COAST MAIZE MILLERS LTD	MOMBASA
5	M B SALLOO AND CO.	MOMBASA
6	MAIZENA MILLERS LTD	MOMBASA
7	MILLY GRAIN MILLERS LTD	MOMBASA
8	MOMBASA GRAIN MILLING CO. LTD	MOMBASA
9	M B SALOO AND CO.	MOMBASA
10	POPAT BROTHERS	MOMBASA
11	TAYARI SUPPLIERS LTD	MOMBASA
12	MOMBASA MAIZE MILLERS	MOMBASA,
13	TSS GRAIN MILLERS	MOMBASA.
14	SARAH'S FOOD PRODUCTS	MOMBASA
15	GOLDEN HARVEST MILLS	NAIROBI
16	KABANSORA MILLERS LTD	NAIROBI
17	NAIROBI FLOUR MILLS LTD	NAIROBI

18	OSHO GRAIN MILLERS LTD	NAIROBI
19	PREMIER FLOUR MILLS LTD	NAIROBI
20	RAFIKI MILLERS LTD	NAIROBI
21	UNGA LTD	NAIROBI
22	FLAMINGO GRAIN MILLERS LTD	NAIROBI
23	KIRINYAGA FLOUR MILLS	NAIROBI
24	NATIONAL UNGA INDUSTRIES	NAIROBI
25	ELECTRO MACHINE SEIKO	NAIROBI
26	NAGARA FLOUR MILLS	NAIROBI
27	BONANZA RICE MILLERS	NAIROBI
28	KAWANGWARE POSHO MILLS	NAIROBI
29	KENWHEAT INDUSTRIES LTD	NAIROBI
30	KENYA FLOUR MILLS	NAIROBI
31	KENYA MILLERS LTD	NAIROBI
32	PEMBE FLOUR MILLS LTD	NAIROBI
33	WHEAT MILL LTD	NAIROBI