RESPONSES OF NAIROBI BOTTLERS LTD TO COMPETITION IN KENYA

BY

DAVID KIPLANGAT BETT

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

NOVEMBER 2012
DECLARATION

This research project is my own original work and has not been presented for purposes of examination in any other University.

Signature____________________ DATE____________________

DAVID KIPLANGAT BETT

Reg:D61/P/8463/2001

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

Signature____________________ Date____________________

Mr. Kagwe ,Jeremiah

Lecturer,

Department of Business Administration

School of Business,

University of Nairobi
I acknowledge my supervisor Mr. Jeremiah Kagwe who tirelessly worked to ensure I completed this project in time. Special thanks also go to my colleagues Kepha Mogeni and Abner Onsomu for their moral and professional support during the time of writing this project.
DEDICATION

This study is dedicated to my family, my beloved wife Rose, and my children Maureen, Marlin and Marvin for their love and moral support during the time of undertaking the research project. Special dedication, also, goes to my mother Jane Kimetto.
ABSTRACT

The main objective of this study was to examine the response of Nairobi Bottlers Ltd (NBL) to competition, in Kenya. The study, also, sought to establish the competitive challenges facing Nairobi Bottlers Ltd. This study utilized a case study research design. An interview guide was used to collect data on the response of NBL to competition in Kenya. The interview guide with open ended questions that was administered by the researcher sought views from ten heads of departments. However, only eight of these managers gave their views to the researcher. Data was analyzed and presented using content analysis. This is due to the fact that the research was qualitative in nature. The study findings indicate various competitive challenges facing NBL including substitute products and the rapid changes in technology. Other competitive challenges include barriers to entry and exit, increased power of suppliers and the changes in customer tastes and preferences. NBL responded to competition through product and market diversification and development, focus, product differentiation and investment in modern technology. In addition the firm utilized aggressive marketing strategies such as premium pricing, advertising and distribution. It is hoped that the findings of this study will be of great value to the following groups; First, is Nairobi Bottlers Ltd Management could use the findings of this research to identify the strategic gaps in their responses to competition and the effectiveness and limitations of the responses. The research will provide information on the competitive strategies adopted by NBL in its endeavors and how they influence the performance and long term success of the organization. For potential investors, the study findings will help them understand the nature of competition in the industry and therefore, make decisions on investment in the industry. Some of the limitations of the study include lack of enough research time, and the unwillingness of the interviewees to supply the right responses. The interviewees were, also, suspicious that such study could expose their competitive advantage to their rivals. Due to the limitations, therefore, the researcher recommends that research be done on the influence of the external environment on NBL competitive edge; and the impact of technological change on NBL’s profitability.
TABLE OF CONTENTS

DECLARATION ........................................................................................................................................... ii

ACKNOWLEDGEMENT ............................................................................................................................... iii

DEDICATION ................................................................................................................................................ iv

ABSTRACT ................................................................................................................................................... v

ABBREVIATIONS AND ACRONYMS ........................................................................................................... viii

CHAPTER ONE: INTRODUCTION .................................................................................................................. 1

1.1. Background of the Study ..................................................................................................................... 1
  1.1.1. The Concept of Competition ......................................................................................................... 1
  1.1.2 Organization Responses ............................................................................................................... 2
  1.1.3 Other Responses of Organization to Competition ........................................................................ 4
  1.1.4 Food and Beverage Industry in Kenya .......................................................................................... 4
  1.1.5 Nairobi Bottlers Ltd. .................................................................................................................... 5

1.2. Research Problem ................................................................................................................................. 6

1.4 Value of the Study ................................................................................................................................ 7

CHAPTER TWO: LITERATURE REVIEW .................................................................................................... 8

2.1 Introduction ............................................................................................................................................ 8

2.2 Concept of Competition ....................................................................................................................... 8

2.3 Competitive Forces .............................................................................................................................. 8

2.4 Industry Competition .......................................................................................................................... 10

2.5 Industry Life Cycle Stages .................................................................................................................. 10

2.6 Industry Structure .............................................................................................................................. 12

2.7 Organizational Responses to Competition .......................................................................................... 12


APPENDIX 3: MAIN BOTTLED WATER COMPANIES IN KENYA............32
ABBREVIATIONS AND ACRONYMS

CSD  Carbonated Soft Drinks

CSR  Corporate Social Responsibility

COKE  Coca cola

IT  Information Technology

NBL  Nairobi Bottlers Ltd

SWOT  Strengths, Weaknesses, Opportunities and Threat
CHAPTER ONE
INTRODUCTION

1.1. Background of the Study

The liberalization of Kenya’s economy starting 1990’s to date has witnessed the entry of several business firms into the Kenyan market. Those firms that entered into the market around 1990-2000s recorded huge profits because they managed to reap the more immediate opportunities in a market that had there before been so controlled to allow for competition. Companies such as Equity and Safaricom recorded higher profits for example Safaricom posted KSH.8 billion while Equity posted Ksh. 3 billion after tax profitability respectively in 2007 (Business Daily,2007). Increased profits were equally realized across industry. However, with the effects of post election violence and the entry of firms into the Kenyan market profitability started going.

More competitors in the market meant a shrinking market share and reduced profitability by firms. While such experience could be felt across firms in the industry the soft drinks industry firms, apparently, faces greater competition not only within the industry but also from outside players (Mogeni, 2008). This is because perhaps due to easy of entry into the market by competitors and the presence of several direct and indirect substitutes in the industry. Soft drinks firms such as Coca-Cola and Pepsi are not only competing against one another but are now facing relatively stiff competition from unlikely quarters- East African Breweries’ Alvaro, bottled water companies and juices, among others. It is in this context then those firms such as Coca-Cola in general and Nairobi Bottlers Ltd specifically have to come up with strategic responses to competition not only for profitability but also for long term sustainability.

1.1.1. The Concept of Competition

Competitive position of the firm inches on its market share, its ability to offer products and services that surpass customer expectations besides sustainable leadership in delivery of overall organizational business strategy in general, and wealth maximization. Competitive forces include bargaining power of the buyers and suppliers, threat of new entrants, and
rivalry among existing companies. In addition to the substitute products and exit and entry barriers (Porter, 1985). Substitute products compete for the same consumers because they usually offer similar satisfiers to customers (Abdala, 2009). The likely entry of new players into an existing industry has the impact of claiming part of the market share in that industry. Threat to entry is dependent government policy and expected retaliation from the existing competitors. Cost leadership, product differentiation, focus strategies; new market entry and development, improved services delivery and lobbying government support clearly elect barriers to the entry (Isaboke, 2001).

The extent of rivalry among the existing competitors in the industry also determines the nature of competition and the subsequent responses to this competition. Suppliers influence industry competition through price increases or reductions products supplied. They can also reduce or improve on the quality of the goods supplied. Suppliers can also be powerful where the industry is dominated by few companies and is more concentrated than in the industry it sells to, and there are substitute products for sale. Also the bargaining powers of the suppliers will be high if the industry is not an important customer of the supplier group, the product is an essential input to the buyer business and the supplier’s products are differentiated (Nyangau, 2003). Powerful buyers interfere with pricing of the products, quality of goods and intensify competition among competitors who try to woo them using several tactics.

1.1.2 Organization Responses

Factors in the competitive situation that affect a firm’s success in acquiring needed resources, in profitably marketing its goods and services constitute the competitive position of the firm. Related factors to the competitive situation include the composition of a firm’s customers, its reputation among suppliers and creditors and its ability to attract capable employees. The analysis of a firm’s competitive position improves a firm’s chances of designing strategies to optimize in the environment. Competitor profiles on the basis of product line breadth key, account advantages, pricing, personnel, caliber and experience for instance, defines, a firm’s competitive position so as to avoid vulnerability of the firm to competitor strategies
(Robinson and Pearce, 2003). To plan the strategic responses, understanding customer profiles will assist in anticipation of changes in size of markets and reallocate resources. Customer segmentation is based on geographic, demographic and buyer behavior information.

Firms also rely on suppliers for financial and resources support such as equipment and materials. Knowledge of suppliers will assist in developing responses on how to handle them, for example of during times of shortages suppliers prices, competitive nature, costs and attractive discounts offered need consideration. Creditors’ assessment includes loan terms offered, reputation of those creditors and strong working capital among others, require consideration.

Competition is meant for an increase in the market share and as this competition increases, firms in the industry are forced to achieve sales growth at one another’s expense. Competition becomes more oriented to cost and service as knowledgeable buyers expect similar price and product features. Competing firms must operate competitively in a competitive environment by crafting competitive responses to the environmental challenges. Indeed, as we talk of the challenges facing firms in the external environment, the competitive environment becomes the most serious of them all. This is because all the sets the three interrelated factors of operating remote and industry environment form the basic of opportunities and threats that a firm faces in its competitive environment (Pearce and Robinson, 2003). Creditor’s analysis help the firm to forecast the availability of the resources it will need to implement and sustain its competitive strategies.

An analysis of the human resources a firm has and the nature of the labour market will determine the decision on the caliber of employees to engage for the success of the firm. The firm’s access to the needed personnel is affected by its reputations as an employer, the local employment rates and availability of ready people with the required skills. For firms to attract the right personnel, they must make decisions to offer competitive terms of service and
compensation, and employee welfare. An assessment of the competitive environment, therefore, enables the managers to draft the best strategies to tap the opportunities in the environment. These responses as of necessity must be competitive so as for them to be strategic. Competitive responses constitute the distinctive Ansoff (1957)’s growth strategies, Grand strategies, franchising and expansion strategies, among others so as to survive in the market.

1.1.3 Other Responses of Organization to Competition

There are also other several responses to competition which could be amalgamated into competitive strategies at the disposal of firms including those applied by Nairobi Bottlers Ltd. Some managers have applied strategic management tools such as benchmarking, re-engineering and total quality management (Safford, 2005). These tools become just responses whose imitability is easier as they just pass for operational activities (Porter 1980). This is in contrast to the very core of strategy which is choosing a unique and valuable position rested in activities whose limitability is so difficult.

Strategies such as Ansoff (1957) Growth Strategies Product/Market matrix allow the management staff to grow the business either thorough new/existing product, in existing and or new markets. These include market penetration for existing markets and existing products, product development (existing market, new products), market development (new markets/existing products and diversification. There are also grand and Expansion Strategies which could be used to respond to increased competition thus entering into new markets with similar products through joint ventures or partnerships, strategic alliances and acquisitions among others (Pearson and Robinson, 2003). In addition, franchising could also be used as a response to competition. Franchising provides relatively strong control of the franchiser without significant capital investment. A firm can also apply cost leadership focus and differentiation or a combination of the latter two as a response to competition.
1.1.4 Food and Beverage Industry in Kenya

The food and beverages industry is all companies involved in processing raw food materials, packaging, and distributing them. This includes fresh, prepared foods as well as packaged foods, and alcoholic and nonalcoholic beverages. Any product meant for human consumption, aside from pharmaceuticals, passes through this industry. The Kenyan food-processing sector, including food and beverages, remains the largest component of the manufacturing industry. In terms of structure, economic contributions, and performance within the manufacturing sector, this sector is the most important and largest comprising of over 1,200 businesses, encompassing everything from small family organizations to large multinational companies. The issues affecting this sector include high duty on inputs which is prohibitive; duplication of laws and regulatory agencies; competition from sectoral association; inadequate supplies of raw materials that are seasonal; high production cost with respect to raw material handling, distribution and marketing; slow development and implementation of policies; and the use of obsolete technology and skills (Kotler, 1998).

Deriving from the agriculture industry in definition, the food and beverage industry is divided into two major segments. Those two segments are production and distribution of edible goods. Production includes the processing of meats and cheeses and the creating of soft drinks, alcoholic beverages, packaged foods, and other modified foods. The production segment of this industry excludes foods that were directly produced via farming and other forms of agriculture, as those are encompassed by our definition of the agriculture industry. Distribution involves transporting the finished food product into the hands of consumers. The industry is much more focused on technology and mechanical manipulation of raw foods to create more value-added food products than the agricultural industry (Markusen, 1984).
1.1.5 Nairobi Bottlers Ltd

Kenya based Nairobi Bottlers Ltd like any other bottling plant belongs to Coca-Cola international Ltd, an Atlanta based multinational carbonated soft drinks firm. The soft drink industry consists of establishments primarily engaged in manufacturing non-alcoholic, carbonated beverages, mineral waters and concentrates and syrups for the manufacture of carbonated beverages. Establishments primarily engaged in manufacturing fruit juices and non-carbonated fruit drinks are classified in canned and preserved fruit and vegetable industry. Their principal activities and products include: Aerated waters, carbonated beverages, mineral and spring waters, soft drink concentrates and syrup, preparation and carbonation.

Nairobi Bottlers Ltd business is based on franchising, a co-operative diversification strategy that provides an alternative to vertical integration whose basis is to achieve a relatively centralized control of the way business is run without significant capital investment (Hitt, 1997). The ongoing business relationship between the franchiser the franchises includes Trade mark, the service and the product, the marketing strategy, operational guidelines, business standards, quality controls, technology and Human Resources among others.

1.2. Research Problem

Increased competition in the soft drinks industry in Kenya’s liberalized business environment has led to reduced market share of the firms, especially Nairobi Bottlers Ltd, and most probably their profitability. Firms must therefore come up with competitive responses to counter competition. This is aimed at giving the firm a competitive advantage so that it creates value to customers and this value exceeds the cost of creating the same value. Porter (1980) gives cost leadership, differentiation and focus strategies as generic competitive strategies that could be used by firms facing competition. While a few studies have been undertaken on responses to competition, no research has dealt with responses to competition with reference to Nairobi Bottlers Ltd. This creates a research gap in this area. A study by
Okoth (2005), for example, has highlighted the competitive strategies employed by the sugar manufacturing firms in Kenya. While the sugar and soft drinks are in different industries, at least, Okoth has tackled the competitive environment that exists in the same environment. Banda (2006), also did research on Public Health Institutions, in relation to competition and competitive strategies. This study is in a different industry from the Soft Drinks Industry and while competition is applicable throughout industry, the competitive responses could be different for the two industries. Also, the research design by Banda is that of a survey while the research design here will be a descriptive case study which gives detailed information about the area under study. Methu (2003) has also dealt with responses of bottled water companies in Nairobi to the threat of substitute products. This study is more general on several water companies and lacks an in-depth analysis of any particular company such as NBL’s Dasani. This research was done in 2003 and since then several changes have taken place to date. The lapse in time again, therefore, is a justification for the current Research. The researcher also aims at being comprehensive in the research to include the CSDs which have not been captured by Methu’s research and in the current external environment. Hence most of these researches have become of age and are more generalized covering the whole soft drinks industry and has not capturing detailed insights to competition of any given firm such as NBL. For a thorough insightful knowledge of responses to competition the questions to be addressed then shall be: What are the responses of Nairobi Bottlers Ltd to competition in Kenya?

1.3 Research Objectives

This research was guided by the following objectives:

i. To identify the competitive forces facing NBL.

ii. To establish the responses of NBL to competition.

1.4 Value of the Study

This study will be of great significance to the following groups of people: First, is Nairobi Bottlers Ltd management. Nairobi Bottlers Ltd management could use the findings of this research to identify the strategic gaps in their responses to competition and the effectiveness and limitations of the responses. The research will provide information on the competitive
strategies adopted by NBL in its endeavors and how they influence the performance and long term success of the organization. For potential investors, the study, the study findings will help them understand the nature of competition in the industry and therefore, make decisions on investment in the industry. The findings of the research project report will also be crucial to the other investors such as shareholders in making decisions on additional investment in the NBL business. For researchers, the study finding will also be crucial as the basis for further research. At the same time this study will contribute to the pool of existing knowledge on the subject under study.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter will deal with the literature review of the study. The wisdom of various researchers is captured under such section as the concept of competition and Nairobi Bottlers Ltd, and the competitive environment. This chapter will also highlight firms’ responses to competition, industry competition and strategic responses, and porters five forces model.

2.2 Concept of Competition

The nature of responses to competition forms the nature of strategy. These strategic response must be forward looking as it concerns itself as to the organization shall be in future - and this is the vision of the company. The vision goal then, is not only establishing a direction to guide the formulation of strategy, but also to set company aspirations for outstanding performance (Hamel & Prahalad, 1989; Grant, 2000 & David, 1998). The responses must therefore have strategic intent an obsession with achieving strategic leadership within the field of Endeavour.

Strategic leadership has the capability of fighting off competition and gain profits for firms. Nyangau (2003) correctly argues how effectively these firms undertake value addition to their products through intensive distribution, advertising, product ranges and corporate social responsibility that will determine the level of their performance Vis a Vis competition. It remains to be seen how companies such as NBL Ltd have to pay ball in the competition and emerge as winning outfit.
2.3 Competitive Forces

Porter’s five force model has extensively been applied in determining the forces of industry competition: Substitute products compete for the same consumers because they usually offer similar satisfiers to customers. Firms producing soft drinks goods must therefore add more value to their goods and services so as to gain consumer acceptance in relation to competing substitutes. This perhaps explains why there exist relatively smaller margins in the pricing of substitute’s products.

The likely entry of new players into an existing industry has the impact of claiming part of the market share in that industry. Taking away part of the market in an industry is not good news for the existing firms in the industry. Threat to entry depends on the existing barriers to entry and the likely responses to the entry by the existing firms in that industry. Threat to entry is dependant on such factors as the government policy, expected retaliation from the existing competitors, access to distribution channels, economies of scale and products differentiation to name just but a few examples. Cost leadership, product differentiation, focus strategies; new market entry and development, improved services delivery and lobbying government support clearly elect barriers to the entry (Isaboke, 2001). The extent of rivalry among the existing competitors in the industry also determines the nature of competition and the subsequent responses to this competition. Rivalry among existing competitors at times is dependant on the product life cycle stage.

Porter (1980) correctly argues that at the decline stage of the product life cycle profits starts dwindling. As a consequence there is intense rivalry as the competitors fight off for their survival in the industry. Intensive rivalry could also result from other factors such as high exit barriers like inability to find use for expensive machinery upon existing players, numerous competitors who want to be the market leaders so as to determine pricing, lack of
differentiation, high strategic stakes whereby a firm’s business is strategically important to an extent where a company is ready to do everything possible to survive. Suppliers influence industry competition through price increases or reductions products/services supplied. They can also reduce or improve on the quality of the goods/services supplied. Suppliers can also be powerful where the industry is dominated by few companies and is more concentrated than in the industry it sells to, and there are substitute products for sale to the industry. Similarly the bargaining powers of the suppliers will be high if the industry is not an important customer of the supplier group, the product is an essential input to the buyer business and the supplier’s products are differentiated (Nyangau, 2003). Buyers and buyer groups who are powerful usually interfere with pricing of the products, quality of goods and intensify competition among competitors who try to woo them using several tactics.

2.4 Industry Competition

Factors in the industry environment directly influence firm’s prospects and include; entry barriers, competitor rivalry, availability of substitutes and the bargaining power of buyers and supplier, among others (Porter 1980). Strategic responses involve the changes in a firm’s strategic behaviors to assure success in transforming the future environment (Ansoff & M.C Donnel, 1990).

Strategic responses constitute a set of decisions and actions that result in the formulation and implementation plans designed to achieve a firm’s objectives. It is a reaction to what is happening in the environment (Pearce & Robinson, 1991”). An industry as a group of companies that provide closely related products and services to a common group of consumers using, in most cases similar technology (Assael, 1993). Competition thrives in industry and to fight it, strategic responses are required. The knowledge of the underlying competitive pressure therefore forms the basis for strategic agenda to deal with the unfamiliar challenges. The Soft drinks industry, where Nairobi Bottlers Limited is a player is thus confined to include the non-alcoholic beverages, (except tea and coffee) thus the fruit juice,
CSD, water and fruit flavored juices. The nature of competition in industry determines the nature of responses adopted by firms to competition.

2.5 Industry Life Cycle Stages

Like firms, industries develop and evolve over time. Not only might the group of competitors within a firm’s industry change constantly, but also the nature and structure of the industry can change as it matures and its markets become better defined. An industry’s developmental stage influences the nature of competition and potential profitability among competitors. In theory, each industry passes through five distinct phases of an industry life cycle. A young industry that is beginning to form is considered to be in the introduction stage (Grant, 2000).

Demand for the industry’s outputs is low at this time because product and/or service awareness is still developing. Virtually all purchasers are first-time buyers and tend to be affluent, risk tolerant, and innovative. Technology is a key concern in this stage because businesses often seek ways to improve production and distribution efficiencies as they learn more about their markets. Normally, after key technological issues are addressed and customer demand begins to rise, the industry enters the growth stage. Growth continues but tends to slow as the market demand approaches saturation. Fewer first-time buyers remain, and most purchases tend to be upgrades or replacements. Many competitors are profitable, but available funds may be heavily invested into new facilities or technologies. Some of the industry’s weaker competitors may go out of business in this stage (Blenkhorn & Fleisher, 2005).

Thirdly there is the shakeout stage which occurs when industry growth is no longer rapid enough to support the increasing number of competitors in the industry. As a result, a firm’s growth is contingent on its resources and competitive positioning instead of a high growth rate within the industry. Marginal competitors are forced out, and a small number of industry leaders may emerge. Maturity is reached when the market demand for the industry’s outputs
is completely saturated. Virtually all purchases are upgrades or replacements, and industry growth may be low, nonexistent, or even negative. Industry standards for quality and service have been established, and customer expectations tend to be more consistent than in previous stages. The U.S. automobile industry is a classic example of a mature industry. Firms in mature industries often seek new uses for their products or services or pursue new markets, often through global expansion. The *decline stage* occurs when demand for an industry’s products and services decreases and often begins when consumers turn to more convenient, safer, or higher quality offerings from firms in substitute industries. Some firms may divest their business units in this stage, whereas others may seek to “reinvent themselves” and pursue a new wave of growth associated with a similar product or service (Grant, 2000).

Although the life cycle model is useful for analysis, identifying an industry’s precise position is often difficult, and not all industries follow these exact stages or at predictable intervals. For example, the U.S. railroad industry did not reach maturity for many decades and extended over a hundred years before entering decline, whereas the personal computer industry began to show signs of maturity after only seven years. In addition, following an industry’s decline, changes in the macro-environment may revitalize new growth. For example, the bicycle industry fell into decline some years ago when the automobile gained popularity but has now been rejuvenated by society’s interest in health and physical fitness (Hitt & Hoskisson, 1997).

### 2.6 Industry Structure

Factors associated with industry structure have been found to play a dominant role in the performance of many companies, with the exception of those that are its notable leaders or failures. As such, one needs to understand these factors at the outset before delving into the characteristics of a specific firm. Michael Porter, a leading authority on industry analysis, proposed a systematic means of analyzing the potential profitability of firms in an industry
known as Porter’s “five forces” model. According to Porter, an industry’s overall profitability, which is the combined profits of all competitors, depends on five basic competitive forces, the relative weights of which vary by industry. They include: the intensity of rivalry among incumbent firms, threat of new competitors entering the industry, threat of substitute products or services, bargaining power of buyers and bargaining power of suppliers these five forces model has been dealt with under the competitive forces above (Porter, 1980).

2.7 Organizational Responses to Competition

Some managers have applied strategic management tools such as benchmarking, re-engineering and total quality management - among others to solving problems in their firms (Safford, 2005). While some of these tools gradually graduate into strategies, they do not pass the test of gaining a sustainable competitive advantage for the firm nor do they graduate into offering a sustainable profitability for firms. These tools become just responses whose imitability is easier as they just pass for operational activities (Porter, 1980). This is in contrast to the very core of strategy which is choosing a unique and valuable position rested in activities whose imitability is so difficult. A sustainable competitive advantage therefore becomes of great significance if the current strategy is value creating, and not currently being implemented by present or possible future competitors (Barney, 1991). Sustainability comes into play when strategies by competitors to render the competitive advantage redundant fails (Rumelt, 1984) and when the imitative actions end without disruption of the competitive advantage.

2.7.1 Ansoff Growth Strategies: Product/Market Matrix

The other strategy is product/market matrix strategy by Ansoff (1957) allows the management staff to grow the business either thorough new/existing product, in existing and
or new markets. Hence we have four possible product/market mix scenarios. These come in the form of product/market combinations and help firms make decisions on the course of action to take. Market penetration for existing markets and existing products occurs wherever a firm enters a market with current products. Ideally, the company gains competitors customers by taking over part of the competitor’s market share attracting non-users of the product, at the same time encouraging current customers to consume more of the product and this forms the basis for market penetration strategy. Also, product development (existing market, new products) firms with an already existing market for its1 product, of response could work the magic of remaining competitive in the market.

Market development (new markets/existing products). Here, established products could be targeted to different customer segments to earn more revenue for the firm. Diversification results in the firm going into markets it had no presence before most of the time. New skills new techniques and new facilities are required leading to establishment of a new organizational structure. Product development, which requires a new product and market extension requiring a new market are more riskier than market penetration (existing product. existing market) while diversification (new product and new market) carries the greatest risk of all these strategies.

2.7.2 Grand and Expansion Strategies

Firms may respond to increased competition by entering into new markets with similar products. These could be markets they are currently not serving or new geographical markets. The needed market entry strategies such as joint ventures or partnerships, strategic alliances and acquisitions may be required in addition to development of new products and services as responses to competition. Acquisitions in forward diversification which may incorporate acquiring businesses not within the current market scope or product scope (Pearson and Robinson, 2003) or may collaboration where they have complementary resources and skills which if combined will help tap existing business opportunities. The application of differentiation could be aimed at fortifying a firm against competitors’ entry, create barriers
to substitutes and make a firm’s products more difficult to imitate (Porter, 1985). The cost of differentiation may be reduced through strategic alliance, mergers and acquisitions and in the long run create a competitive edge for firms.

Expansion may take the form of diversification so as to increase the market share, improve on profit margins, financial and technological capabilities. Expansion may also take the form of increasing the product lines. Expansion may also take the form of increasing operational capacity of the firm like the production capacity, restricting or even acquisitions. (Schollei, 1999). Strategic expansion requires a thorough understanding of customer needs; current and future so as to produce products and services to suit these needs through effective application of its internal capabilities. Embarking on expansion also requires thorough benchmarking of competitors’ expansion strategies and their successes so as to clearly get a foothold of the specific opportunities inherent in the market. The internal capability of the firm requires to be critiqued in relation to the firm’s internal systems and structures as in legal, current products, human resources and production capabilities.

2.7.3 Generic Strategies

Other schemes in the market could as well be seen finally as the desired responses to competition. Porter (1980) has come up with yet 3 basic generic competitive strategies to counter his fives forces intensifying industry competition. These are cost leadership differentiation and focus. Firms’ interest here could be to gain a differential value advantage in the provision of products with more differential value to customers. Essentially this is a case of having customers perceive the premium value in the products versus those of competitors. Indeed different is often but not always associated with higher price because it makes price less critical (Aldershot, 1980).). Differentiation basically is to do thing differently/ uniquely so that in the eyes of the customers the product is unique. Porter (1998) claims that this uniqueness creates loyalty to customers by building acceptance of the product and thus creating nightmares to competitors. Use of technology, design, marketing, promotion, service delivery and distribution that are done in a unique manner is all but
differentiation and creates a unique value to customers. It is differentiation which gives the
customer a chance to go for a brand of more value to him/her and not the product. However,
differentiation could only make sense if it is sustainable by being above rivals and it creates
sustainable competitive advantage.

Strategy assumes differentiation character, if it has the consequences in which its product or
service is different from that of its competitors in such manner that customers value this
product more than those of competitors and thus affect customers’ choice in making a
preference to go for this unique product of more value. Ultimately this differentiation should
earn above average returns for the firm (Aldershot, 1980)). Differentiation should critically
satisfy the customer needs through the creation of uniqueness, affordability superiority, and
perceptiveness in addition to creating above average returns to the firm enterprises. The focus
in cost leadership strategy is cost reduction better than competitors. Companies dealing with
similar production processes could use economies of scale, control of overhead costs, and
cost reduction on non—key accounts, outsourcing of non core functions, and employing of
qualified staff to avoid wastages as some of the cost reduction strategies.Focus strategy is put
on specific niche markets, specific product lines or consumer groups and there is
concentration to develop this market. Premium creation by offering superior service at low
cost and differentiation will produce a competitive advantage. Contribution on the focus
strategy by Banda, (2006) on focus is based on cost leadership and differentiation is more
attractive to firms if the industry has multi niches-segments and therefore allows a firm to
pick on a niche that could give the greatest returns and where it could utilize its resource
distinctive competences to the fullest. Finally, that the competition finds it hard to do market
niching to attend to customer needs then the organization doing the focus. Again the firm
doing focus his financial and other resources to do so but productively and enjoys good will
from customers
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter dealt with research design/structure, target population, description of research instruments, data collection methods and procedures as well as data analysis.

3.2 Research Design

This research was a case study of the Nairobi Bottlers Ltd. It was used to establish the responses to competition by Nairobi Bottlers Ltd. A case study aims at determining the what, when, how of a phenomenon which was covered (Donalds & Pamela, 2003). The case study method provided much more detailed information on the subject under study. This study was descriptive in nature since the variables under measurement describe phenomena. A case study is the easiest research free from material bias and enables one to intensively study a particular unit (Mogeni, 2008).

3.3 Data Collection

The researcher used an interview guide with open ended and structured questionnaires to collect primary data to cover the responses of Nairobi Bottlers Ltd to competition. Ten heads of departments in sales, marketing, information technology, production, logistics, procurement, communications, engineering, strategy and human resources were interviewed. This is because top management constitutes the group of managers who are empowered to formulate and implement the competitive responses of the firm. Interview guides gave detailed information than other instruments like observation. The researcher personally administered the interviews.
3.4 Data Analysis and Presentation

Data was analyzed by content analysis. This is because the research is qualitative in nature. The descriptive statistics such as averages and frequency distribution tables was used in summarizing data and ranking strategies used in terms of their importance. Such methods for data analysis have successfully been used by Gakombe (2002) to rank in terms of importance, the industry forces affecting private hospitals in Nairobi. The data was presented quantitatively by use of diagrams, frequencies and graphs. The data was also presented qualitatively by use of content analysis.
CHAPTER FOUR
DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents findings and discussions of the study. It covers the competitive forces facing Nairobi Bottlers Ltd and the responses to competition to these forces by Nairobi Bottlers Ltd.

4.2 Competitive Forces

The objectives of this study were to identify the competitive forces faced by NBL and to establish the responses of NBL to competition. Data was collected through an interview guide administered by the researcher himself targeting ten heads of departments. Using open ended questions from the interview guide the interviewees were asked questions that were in line with the study objectives. The guide had three sub sections. Section A covered the bio data of the interviewees; section B covered the competitive forces facing NBL. The last section contained questions covering the responses of NBL to competition.

A total of ten heads of departments were targeted for the interview. Only eight interviewees responded to the interview guide. This represents 80% response rate which is considered sufficient for data analysis purposes. Content analysis was used in data analysis and presentation. This is because the nature of data was qualitative.

In the first part of the interview guide, the study sought to establish the challenges posed to NBL. The study came up with various findings. Competitive rivalry caused by existing players and new entrants in the industry. The interviewees were asked about competitive rivalry, indicated that the firm is facing competition from both existing players and new entrants. So far, the direct competitors to NBL are the neighbouring bottling plants such as Mount Kenya Bottlers, Rift Valley Bottlers whose products spill over into NBL markets. Existing competitors and new entrants compete on both new and existing products. The findings indicate the other bottling plants compete on Carbonated Soft Drinks (CSD), Dasani and juices.
NBL is also facing stiff competition from EABL’s Alvaro and Pepsi soft drinks and other mineral water firms such as Keringet, Alphins and tapped water among others. The interviewees were asked about competition posed by threat of substitute products such milk, tea, coffee, picana, yoghurt, among others. The substitute products reduce the NBL market share.

The interviewees were asked about the key issues in supplier power that affect the level of competitiveness of NBL. The findings indicate that sugar supply is threatened because of the world demand for use of ethanol for cleaner energy. Hence the market is headed into growing of corn as a substitute to sugar which Coca Cola uses. NBL is therefore threatened with sugar deficit in production. The interviewees also indicated that the power of the mother company Coca Cola International in the supply of concentrates is a key ingredient in the production of soda.

The interviewees were asked about the changing consumer tastes and preferences indicate that there is increased consumer awareness about their health and there is a tendency to move away from soda with sugar. This is a major force to reckon with consumers who need variety of coca cola variants on take away packs and take home packs required on occasional basis. The interviewees were also required to answer about product pricing as a challenge facing NBL. Findings indicate that cases whereby the rising costs of production are pushing up prices to points where most consumers are unable to afford the products. This has led to a decline on consumption of the coke products.

The interviewees were asked about the barriers to entry and exist as a force. The findings indicate that pricing is a major barrier to entry especially to new entrants’. existing players
such as NBL can operate at bare margin level where other competitors could not find it cost effective to trade in the market. The size of NBL allows for the possibility of the firm to use both backward and forward integration in its production for NBL has its own bottling plant at Embakasi. As a barrier to exit, NBL has created a network with retail shops by supplying them with free coolers for storage purpose It is irresistible for the retailers not to embrace coca cola products in the event of competing firms.

Technological change is a challenge facing coca cola. The findings indicate the speed of production and efficiency comes with technology. There are new technologies in communication and in the internet. NBL needs to invest in new technologies to break even. The speed to market also requires the use of technology in terms of fast and efficiency communication assessing supplier information, procurement information and market intelligence gathering and real time information among others.

The interviewees were also asked about the competitive staff capability as a challenge to competition. The findings indicate that most of the coca cola plants which offer direct competition to NBL have qualified and experienced staff. Majority of the managers in coca cola are highly qualified personnel. However, a major challenge comes from key players such as EABL which has financial muscle to hire or poach NBL staff on attractive remuneration package. Indirect competition such as the mineral water firms and juice firms are almost all the time poaching coca cola firms` personnel.

4.3 Responses to Competition

The interviewees were asked about the responses on product pricing challenges. The findings indicated NBL has the power of using pricing as a competitive tool to spur an increase in demand for coca cola products. As a market leader coca cola has the capability to lower
prices and give discounts as and when necessary to remain competitive. It has the financial ability to play around with pricing which suits the consumers. As a response the firm has different packs for different markets.

Changing technology as a response, findings indicate that NBL has embraced new technologies in the Total Quality Management issues. It has also put up a multi-million plant for production at Embakasi. The plant utilizes new production technology which cuts its production costs drastically. NBL has embraced the use of internet, e-procurement and e-banking to cushion itself against technological challenges. In relation to competitive human resource management resources, the findings indicate that NBL tries to maintain its human resource management competitiveness by rewarding its staff higher compensation packages. NBL staffs are also being taken through in-house and external training in Manpower Development.

The findings under consumer tastes and preferences indicate that NBL has produced packs e.g take away two little family shared packs NBL has responded to the above by investment in coolers for customers preferring cold drink. At the same time there sports packs for the trendy youth and sportsmen.

The interviewees were also asked about NBL responses to supplier power. The findings indicate that while NBL hires Simba Colt motors for distribution it is possible for this firm to have its own fleet when required to do. At the same time the company under coca cola is considering moving into products which do not rely on supply of sugar and concentrates. In this the firm is moving into juices, tea, water and coffee. Hence, the company aims at becoming a stop shop for anything soft. Again to avoid shortage the firm ensures advance supply bookings to the tune of three years. For example the company has booked for glass supply for two or three years ahead. Competitively speaking, competitors who rely on glass for packaging may lack plenty of suppliers on the same.
Interviewees were also asked by the researcher the responses by NBL to competition. The findings indicate that NBL has employed a lot of resources in advertising and aggressive distribution. Similarly, the company has invested in marketing as well as the manufacture of new customer made products like coca cola Zero. Other new products by coca cola include products such as the juices, orange pab, minute maid and water. The firm has improved on its incentives they give to the market from staff to the distributors. To deal with the substitute products coca cola has come up with Dasani, Chaywa tea and the juices among others. The firm has made huge investments in coolers which makes it difficult for competitors to invest in their chilled market by use of cooler investment.

4.4 Discussions of Findings

The findings indicate that the rivalry among existing players and new entrants poses a great challenge to NBL. NBL has responded to competitors through product diversification, market diversification, focus strategy and differentiation among others. These findings are consistent with the findings by Mogeni (2008) who looked at Coca Cola Kisii Bottlers competitive strategy. Mogeni also found out that Kisii Bottlers responded competitively by utilization of the same strategies. These findings are also in agreement with the various literatures. Authors such as Burnes (2004), David (1998) and Grant (2000) also pointed out that firm’s competitive creation as a product of such strategies as product diversification, market differentiation and cost leadership among others.

The power of suppliers is important in determining production. Supplier of raw materials if not effectively done can lead to a deficit in product of a firm. The findings points out the NBL have dealt with supplier power through diversification into products which do not solely depend on sugar and concentrates. Diversification, forward and backward intergration strategies have also been found to be important in researches undertaken by Bahati.
The same strategies have been pointed out in the literature of Hitt and Hoskinson and Grant (2000) and Hamel (1996). The findings indicated that technology plays a sufficient role in creating competitive edge as a response.

Technology increases product quality, could be utilized to produce new products and improve on information delivery. NBL has utilized IT to this end. These findings agree with the literature of Aosa (1992), Burns (2004) and Grant (2000) who value technology as a competitive edge creator. Findings also, point out on the response to the power of entry and exit by NBL. This strategy makes it difficult for competitors to enter into and exit the market.

NBL has utilized pricing and heavy capital investment as a power of entry and exit in its markets. These findings agree with empirical studies by Nyaga (2007) who points out the use of heavy investment in IT as a barrier and exit strategy. The use of substitute products was found to be competitive response by NBL. NBL used product diversification and market differentiation by manufacturing juices and product variance respectively as a response. The same strategies of products diversification were identified in empirical studies by Kerenga (2010) and Nyaga (2007).
CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter covers the summary of the findings of the study. It also captures the conclusions of the study as well as recommendation for policy and practice.

This is addition to limitations of the study and suggestions for further research.

5.2 Summary of Findings

The main objective of this study was to find out identify competitive forces facing NBL and establish responses to competition. The findings of the study indicate that NBL faces various competitive forces in its operating environment. The greatest competitive challenge facing NBL was found to be rivalry from existing competitors and new entrants onto the industry. Existing competitors and new entrants were found to cause various competitive challenges to NBL. The competitors included those of new products like Alvaro, staff poaching and use of advanced IT. Other competitive strategic challenges to NBL include the increased levels of substitute products, competitive entry and exit barriers among others.

The findings indicate various response strategies applied to NBL to these challenges. Product diversification and market diversification and product development were to have taken center
stage in the responses. NBL has also invested heavily in information technology especially in its production, procurement and distribution networks. The firm uses extensive marketing strategies such as advertising, marketing distribution and pricing among others. NBL has also invested in the production of tea, water and juices to deal with the proliferation of substitute products.

To deal with the power of suppliers the firm has invested in the production of products which do not heavily rely on sugar and concentrates such as water and juices. At the same time the firm has a team of highly qualified and experienced staff who regularly undergo training and development to sharpen their competitive skills. These personnel are fairly well remunerated in line with the industry standards so as maintain and retain them.

**5.3 Conclusions of the Study**

In general the competitive environment facing NBL is turbulent. The competitive environmental turbulence has been occasioned by increased rivalry among existing players and new entrants into the industry, rapid changes in customer tastes and preferences and the ever technological changes among others. At least NBL has strategically responded to these challenges through strategic leadership, product and market diversification as well as differentiation and effective utilization of technology.

**5.4 Recommendations for Policy and Practice**

NBL should put in place a research and development investments to assist it in studying competition and how effectively they can deal with the same. This is necessary owing to the fact that the operating environment is turbulent and technological changes are rapid as well as regular changes in customer tastes and preferences.
It is also important that the NBL management explores the possibility of outsourcing additional functions such as hiring of salesmen vans, fleet management, and the manufacturing and distribution of its products to the market place. If this is done, it is hoped; the competitive positioning of the firm will be taken a notch higher and is likely to create value and a sustainable competitive advantage for it eventual survival and maximization of stakeholders’ wealth.

5.5 Limitations of the Study

The study was faced with the limitation of the respondents unwilling to give the researcher the total responses to answer the research objectives sufficiently. The interviewees were suspicious that the answers given could be used by competitors to beat them in their competitive edge. Since the research targeted the top managers, they were unwilling to respond effectively for fear of being victimized for giving out strategic responses to competition to competitors.

Time was also a limiting factor. The researcher is in full time employment and thus did not have enough time in the collection of data. The research did not conclusively cover the research objectives. Limited resources on the part of the researcher were another limitation. The research lacked adequate funding for conducting the research since the researcher was self-sponsored in the MBA course.

5.6 Suggestions for Further Research

The researcher recommends that further research should be undertaken on the following: the influence of the external environment on NBL competitive advantage so that it can deduce
ways of strategizing against hostile operating environment at the same time embracing opportunities brought about by the external environment. Equally it will of value for NBL to carry out a research on the impact of the technological changing environment on the production of NBL products, this will not only help them to improve of their product quality but they will be in position to give customers the best products. Apart from the above NBL can improve on its profitability and market share is they carry out a study on the effect of changing consumers’ tastes and preferences its profitability.
REFERENCES


APPENDICES

APPENDIX 1: INTRODUCTION LETTER

Dear Respondent,

My name is Bett, a student of the University Nairobi conducting a research study on the responses of Nairobi bottlers’ ltd to competition. The research study is being conducted in partial fulfillment of a Masters in Business Administration in Strategic Management Option.

This interview guide targets employees of Nairobi Bottling Limited and is designed to obtain information to answer the objectives of the research study. Please take time to answer the questions carefully by giving honest answers. This interview guide and the information obtained will be used purely for academic purposes and will be treated with strict confidence.

Thank you in advance

Bett David K
APPENDIX 2: INTERVIEW GUIDE ON RESPONSES OF NAIROBI BOTTLERS LTD TO COMPETITION IN KENYA

SECTION A: BIO DATA OF THE INTERVIEWEES

1.(a) Name of Manager ………………………(optional)……………………………

b) What is your highest level of academic and professional qualification?

c) How long have you worked for this firm?

SECTION B: COMPETITIVE FORCES FACING NAIROBI BOTTLERS LIMITED

2. Which challenges do new entrants pose to your organization?

3. To what extent does existing rivalry among existing players in the industry affect your competitiveness?

4. What are the key issues in supplier power that affect your level of competitiveness?

5. To what extent does existing barriers of entry and exit impact on your competitive level?

6. Which specific issues in competitor human resource capability affect your competitive edge?

7. To what extent do changing customer tastes and preferences affect your competitive edge?

8. How does a product pricing level impact on your competitiveness?
SECTION C: RESPONSES OF NAIROBI BOTTLERS TO COMPETITION

1. How have you responded to competition in the market in terms of the following forces?
   
i) New entrants

   ii) Existing rivalry against current players in the industry

   iii) The power of suppliers

   iv) Barriers of entry and exit

   v) Competitor human resource capability

   vi) Changing customer tastes and preferences

   vii) Product pricing levels
### APPENDIX 3: MAIN BOTTLED WATER COMPANIES IN KENYA

<table>
<thead>
<tr>
<th>Company</th>
<th>Company Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdares Water Ltd</td>
<td>Highlands mineral water company</td>
</tr>
<tr>
<td>Alpine coolers ltd</td>
<td>Kenya Nut Co. Ltd</td>
</tr>
<tr>
<td>Annum Trading Co. Ltd</td>
<td>Keringet Pure Natural Water</td>
</tr>
<tr>
<td>Annum Trading Co. Ltd</td>
<td>Kevian Ltd</td>
</tr>
<tr>
<td>Aqua mist Ltd</td>
<td>Kilimanjaro Beverage Co. Ltd</td>
</tr>
<tr>
<td>Coca cola Co. Ltd</td>
<td>Koba Waters Ltd</td>
</tr>
<tr>
<td>Crow Distributors Ltd</td>
<td>Liztan Enterprises Ltd</td>
</tr>
<tr>
<td>Elipa 2002 Enterprises Ltd</td>
<td>Mic Food Executive Industry Ltd</td>
</tr>
<tr>
<td>Grange Park Mineral Water Ltd</td>
<td>Mountain Spring Pure Natural</td>
</tr>
<tr>
<td>Muwjo Foods Ltd</td>
<td>Savannah springs mineral water</td>
</tr>
</tbody>
</table>

Source: Author of this study