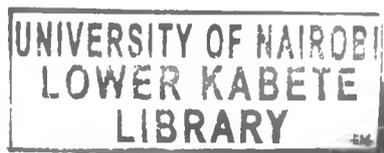


**COMPETITIVE STRATEGIES ADOPTED BY COCA-COLA
KENYA**

BY

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

NOVEMBER, 2012

DECLARATION

I declare that this project is my original work and has never been submitted for a degree in any other university or college for examination/academic purposes.

Signature..........

Date.....09/11/2012.....

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D61/60115/2010

SUPERVISOR'S DECLARATION

This research project has been submitted for examination with my approval as the University Supervisor.

Signature..........

Date.....09/11/2012.....

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DEDICATION

To my dear sisters and brother, Evelyne, Stella, Anne, Immaculate and Jacob who have been my inspiration throughout the MBA program. Special dedication to my loving parents, Mr and Mrs Robert Ang'wech for their unending support.

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ABSTRACT

For organizations to survive and remain profitable in the competitive environment, it is necessary for them to be aggressive in their search and development of strategies that provide competitive advantage as they step up defensive strategies to protect their competitive advantages held. Any organization that fails to adopt competitive strategies will not make it especially if competition is cut-throat. The purpose of the study was to determine the challenges of competition faced by Coca-Cola Kenya in the Soft Drinks Industry and to establish the Competitive Strategies it had adopted to cope with the competition. This was a case study and only primary data was used for the study. Interview guides were administered among senior managers at Coca-Cola Kenya to collect data. Being a case study, conceptual content analysis was the most useful in analyzing the data. The study found that Coca-Cola Kenya is facing a lot of competition challenges especially from new entrants. From the study findings, the researcher concludes that with the new entrants and consumers' increased awareness of healthier products, the market share of Coca-Cola in the Soft Drinks Industry is decreasing. It has consequently adopted various strategies which include revamping its juice manufacturing and embarking on serious marketing campaigns. Other long term strategies include modernization of equipment, expanding existing capacity in order to meet the ever growing consumer needs and partnering with fruits and vegetables farmers in various parts of the country in its quest to increase its presence in juice manufacturing. The study recommends that Coca-Cola Kenya should intensify its marketing campaigns on its juices to create awareness to consumers who are not aware of their new range of products, lobby for better legislation and include its bottlers in their strategy formulation and not just the implementation.

TABLE OF CONTENTS

Declaration.....	ii
Dedication.....	iii
Acknowledgements.....	iv
Abstract.....	v
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background of the Study.....	1
1.1.1 Competitive Strategies.....	2
1.1.2 Soft Drinks Industry in Kenya.....	3
1.1.3 Coca-Cola Kenya.....	5
1.2 Research Problem.....	7
1.3 Research Objectives.....	8
1.4 Value of the Study.....	9
CHAPTER TWO: LITERATURE REVIEW.....	11
2.1 Introduction.....	11
2.2 Industry Competition.....	11
2.3 Challenges of Competition.....	14
2.4 Concept of Strategy.....	16
2.5 Competitive Strategies.....	18
2.5.1 Porter's Generic Strategies.....	19
2.5.2 Ansoff's Product-Market Strategies.....	21
CHAPTER THREE: RESEARCH METHODOLOGY.....	23
3.1 Introduction.....	23
3.2 Research Design.....	23
3.3 Data Collection.....	23
3.4 Data Analysis.....	24

CHAPTER FOUR: FINDINGS AND DISCUSSIONS	25
4.1 Introduction	25
4.2 General Information	25
4.3 Challenges of Competition faced by Coca-Cola Kenya.....	26
4.4 Competitive Strategies adopted by Coca-Cola Kenya	29
4.4.1 Introduction of new and healthier Products.....	29
4.4.2 Launching of more Brands	30
4.4.3 Distribution.....	31
4.4.4 Pricing.....	32
4.4.5 Marketing Campaigns	33
4.5 Long Term Competitive Strategies	34
CHAPTER FIVE: SUMMARY, RECOMMENDATIONS AND CONCLUSION	37
5.1 Introduction	37
5.2 Summary of Findings	37
5.3 Conclusion of the Study	40
5.4 Recommendations for Policy and Practice.....	41
5.5 Limitations of the Study	42
5.6 Suggestions for Further Research	43
REFERENCES.....	44
APPENDICES	47
Appendix I: Letter of Introduction	47
Appendix II: Interview Guide	48

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

All organizations are open systems in that they affect and are affected by external conditions that are largely beyond their control (Pearce and Robinson, 1997). Organizations exist in a complex political, social, technological and legal environment. Moreover, with globalization, the competitive landscape of markets has broadened resulting to complex macro environment for all organizations. Organizations are therefore forced to adapt to these changes and adopt various strategies to obtain and/or maintain their competitive edge (Keegan, 1984). Although the relevant environment is very broad, the key aspect of a firm's environment is the industry in which it competes. Important components and competitive analysis involves delving into the industry's competitive process to discover what the main source of competitive pressure is and how strong each competitive strategy is (Thompson and Strickland, 2007).

Organizations have adopted different kinds of strategies to counter the strong forces of competition some of which include specialization, diversification, product development, promotion and distribution for competitive advantage. Effective strategy enables a firm to influence the environment in its favour and defend itself against competition. Aaker (1992) points out that given the current focus in business, there is need to understand competitor strengths in the market and then position one's own offerings to take advantage of its weaknesses and avoid head on clashes against its strengths. Competitive strategy is usually designed to position the firm within the industry so that over a long period of time, it can earn high profits and to achieve this, an organization must implement a business strategy that develops and sustains an advantage over the competitors (Porter, 1998). There are two basic types of competitive advantage a firm can have, low cost or differentiation. These two

combined with the scope of activities for which a firm wishes to achieve leads to three generic strategies for achieving above average performance in an industry. They include cost leadership, differentiation and focus. All organizations must therefore continuously improve operational effectiveness in their activities but sustainable performance difference will often depend on having a distinctive strategic position (Porter, 1998).

1.1.1 Competitive Strategies

A competitive strategy is the means of how a firm will compete, formulated after evaluating its strengths and weaknesses compared to those of its competitors. A firm positions itself by leveraging its strengths. Porter (1998) argues that a firm's strengths ultimately fall into either cost advantage or differentiation and by applying these strengths into a broad or narrow scope, three generic strategies result, cost leadership, differentiation and focus. These strategies are applied at the business unit level are called generic strategies because they are not industry or firm related.

Porter argues that the cost leadership strategy calls for being the low cost producer in an industry for a given level of quality where the firm sells its products either at average industry prices to earn a profit higher than that of rivals or below the average industry prices to gain market share. Some of the ways that firms acquire cost advantages are by improving process efficiencies, gaining unique access to a large source of lower cost materials, making optimal outsourcing and vertical integration decisions or avoiding some costs altogether. If competing firms are unable to lower their costs by a similar amount, the firm may be able to sustain a competitive advantage based on cost leadership.

According to Porter (1998), differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition. The value added by the uniqueness of the product may allow the firm to charge a premium price for it. The firm hopes that the higher price will more than cover the extra costs incurred in offering the unique product. Because of the product's unique attributes, if suppliers increase their prices, the firm may be able to pass along the costs to its customers who cannot find substitute products easily. The focus strategy on the other hand concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation. The premise is that the needs of the group can be better serviced by focusing entirely on it. A firm using a focus strategy often enjoys a high degree of customer loyalty and this entrenched loyalty discourages other firms from competing directly.

1.1.2 Soft Drinks Industry in Kenya

The Soft Drinks industry in Kenya is presently characterized by competition among firms of varying sizes, product ranges and business strategies. Since independence, there has been limited competition to the Coca-Cola Company by other firms but by the 1980s, the Kenyan Soft Drinks market was a virtual monopoly. Most of these earlier competitors were confined to specific sections of the country and did not have as much reach as their main competitor (Owino, 2002). The industry is a capital intensive one that requires a lot of expenditures in order to ensure brand recognition. Such high initial costs are a definite barrier to entry before the consideration of fairly high marketing costs that include expensive advertising, hence being the main reason Softa bottling company in 1998 was out of the market within a year of entry.

Currently, the industry is in the tight grip of global giant Coca-Cola but the US multinational Pepsi Cola and London based SAB Miller are in the process of establishing a manufacturing presence in Nairobi even as market data points to a flattening market for soft drinks. Pepsi Cola which stopped bottling in Kenya under competitive pressure from Coca-Cola in the 1970s is putting up a Ksh 2.4 billion plant while SAB Miller has taken control of family owned Crown Foods, the bottlers of Keringet brand of drinking water (Wangechi, 2011). For Pepsi, the plant becomes the biggest statement by the firm which used to be a major player in the Kenyan market before the 1970s where it lost its market share to Coca-Cola. East African Breweries introduced Alvaro, a non-alcoholic malt drink in 2008 which rattled Coca-Cola hence the introduction of Novida in November, the same year by Coca-Cola. Kevian Kenya Ltd that manufactures mainly juices has also introduced a cola brand in the market in a move aimed at undercutting Coca-Cola and Pepsi-Cola. Though carbonated drinks dominate the market, the fastest growth is expected from malt drinks where only Coca-Cola and East African Breweries are present.

Carbonates continue to grow due to strong marketing campaigns. Moreover, the Kenyan economy has been rising, thus resulting in increasing disposable income. However, the power and water crisis experienced in the country in 2010 and 2011 increased the cost of production greatly leading to an increase in prices. In addition, fresh juice registered high growth as consumers turned to drinks deemed healthier for them (Baldrige, 2011). Bottled water has been experiencing growth due to athletic events like Safari Sevens, the annual seven-a-side rugby tournament and football competitions, where bottled water is usually in high demand. The launch of Maisha by Ketepa Packers Ltd and H2O bottled water also indicates that companies are continuing to invest in the category to ensure growth.

Consumers have become more health conscious when selecting their preferred soft drinks. Although it has not yet impacted volume sale of carbonates, it shows a greater awareness of the health risks of those products and the link between soda and obesity. There has also been some bad word-of-mouth publicity on carbonates, such as the rumour that Coca-Cola may have bleaching effects when poured on painted surfaces. Projections indicate continued growth for all categories over the forecast period, with fresh fruit drinks exhibiting tremendous volume growth due to continuing interest in healthier products (Baldrige, 2011). In addition, the low quality of drinking water in urban regions will further encourage consumers to spend more on soft drinks, particularly as their income rises. The renewed interest in the soft drinks market comes at a time when the manufacturing sector is experiencing lower margins due to increased competition and high operational costs, with players resorting to price wars to drive up sales.

1.1.3 Coca-Cola Kenya

The Coca-Cola Company is the world's largest beverage company, refreshing consumers with more than 500 sparkling and still brands (Carnegie, 2011). With a portfolio of more than 3,500 beverages, from diet and regular sparkling beverages to still beverages such as 100 % fruit juices and fruit drinks, waters, sports and energy drinks, teas and coffees, and milk-and soy-based beverages, Coca-Cola variety spans the globe. Led by Coca-Cola, the world's most valuable brand, Coca-Cola Company's portfolio features 15 billion dollar brands including Diet Coke, Fanta, Sprite, Coca-Cola Zero, Vitamin Water, PowerAde, Minute Maid, Simply, Georgia and Del Valle. Globally, Coca-Cola is the number one provider of sparkling beverages, ready to drink coffees and juice drinks. Through the world's largest beverage distribution system, consumers in more than 200 countries enjoy Coca-Cola beverages at a

rate of 1.7 billion servings a day. Together with its over 300 bottling partners, it ranks among the world's top 10 private employers with more than 700,000 system employees.

Established in 1886, The Coca-Cola Company operates in more than 200 countries. In Africa alone, it operates in all the territories in the continent having subdivided the continent into business units like Central, East and West Africa Business unit, Southern Africa and Islands Business unit. Coca-Cola Kenya is in the Central, East and West Africa Business unit (CEWABU) and is in charge of eight franchise bottlers which include Nairobi Bottlers Limited in Nairobi, Equator Bottlers Limited in Kisumu, Coastal Bottlers Limited in Mombasa, Mt.Kenya Bottlers Limited in Nyeri, Rift Valley Bottlers Limited in Eldoret, Kisii Bottlers Limited in Kisii and Coca-Cola Juices Kenya Limited in Nairobi.

Coca-Cola Kenya is a market leader, which is a firm that has the largest share and determines the nature of the bases of competition within the market by virtue of its pricing, advertising intensity, distribution coverage, technological advancement and new rate of product introduction. As a market leader it has to expand the total market, protect its current share of the market and increase market size so as to ensure its continued dominance. Coca-Cola as a company has been enjoying massive profits and a large market share in the soft drinks and water manufacturing sector in Kenya for a long time until it started facing competition especially from the juice manufacturing companies that have been coming up in the recent past. It is also expecting stiff competition from PepsiCo which is building a Ksh 2.4bn plant off Thika and Baba Dogo roads and SABMiller which has taken control of family owned Crown Foods, the bottlers of Keringet brand of drinking water. The launch of Maisha by Ketepa Packers Ltd and H2O bottled water also indicates that more and more companies are continuing to invest in this category.

Consumers have become more health conscious when selecting their preferred soft drinks. They are moving to consume drinks that they deem are healthier such as natural fresh juices with no chemical preservatives because chemical preservatives are believed to be carcinogenic if taken over a long period of time. Although it has not yet greatly impacted on volume sales, carbonated soft drinks, the largest percentage of Coca-Cola products, are likely to become less popular because there is great awareness of the health risks of those products such as the link between chemical preservatives and cancer and also the link between soda and obesity. For these reasons, Coca-Cola Kenya has to really strategize effectively so as to retain its market share.

1.2 Research Problem

Organizations achieve competitive advantage by providing their customers with what they want better or more effectively than competitors and in ways which their competitors find difficult to imitate. This means deliberately choosing to perform different activities better than competitors to deliver a unique value mix. In order to survive in the competitive environment, it becomes necessary for firms to be aggressive in their search and development of strategies that provide competitive advantage as they step up defensive strategies to protect their competitive advantages held. The stiff competition among companies and the entry of other players into the industry necessitate the design of competitive strategies to guarantee their performance.

Coca-Cola Kenya, a market leader in the Soft Drinks Industry in Kenya is facing stiff competition especially from the juice manufacturing companies that have been coming up in the recent past (Okal, 2012). It is also expecting stiff competition from PepsiCo which is building a new plant in Kenya and SABMiller which has taken control of family owned

Crown Foods, the bottlers of Keringet brand of drinking water. The launch of Maisha by Ketepa Packers Ltd and H2O bottled water also indicates that more and more companies are continuing to invest in this category. In addition, consumers have become more health conscious and are slowly moving away from carbonated soft drinks which is the largest percentage of Coca-Cola products.

A number of studies have been done on competitive strategies but under different contexts. Gathoga (2001) focused on competitive strategies adopted by commercial banks in Kenya and concluded that one of the main strategies that the banks adopted was the expansion strategy by opening new branches. Omondi (2006) carried out a study on competitive strategies adopted by airlines in Kenya and found that airlines sought to add value to their products through differentiated customer service. The findings of these studies reveal that firms in different industries adopt different competitive strategies which are unique in each context. There has been no specific study to address the competitive strategies adopted by Coca-Cola Kenya. There is need therefore to come up with this study thus the current study seeks to answer the following questions. What are the challenges of competition faced by Coca-Cola Kenya in the Soft Drinks Industry? What competitive strategies has it adopted to cope with competition in the Soft Drinks Industry?

1.3 Research Objectives

- i. To determine the challenges of competition faced by Coca-Cola Kenya in the Soft Drinks Industry.
- ii. To establish the Competitive Strategies Coca-Cola Kenya has adopted to cope with competition in the Soft Drinks Industry.

1.4 Value of the Study

The players in the Soft Drinks Industry will gain an understanding of the challenges emanating from changes in the environment specifically competition and possible strategic responses to remain competitive. The findings will be useful to their planning processes and adoption of relevant competitive strategies in the wake of various changes in the industry. This study also seeks to highlight critical areas that would require urgent attention and make appropriate recommendations.

For academicians and researchers, findings from this study may be used as a source of reference for other researches. The findings may also stimulate further research in this area and as such form a basis of good background for further researches. In addition, the research findings will contribute to the existing body of knowledge and also help in contributing to various strategic management theories.

This study will also act as a guide to management of Coca-Cola Kenya in their steps towards developing competitive advantages and maintaining their market leadership in the industry. The management of Coca-Cola Kenya will be enlightened about the challenges of competition it is facing in the Soft Drinks Industry and develop mechanisms of overcoming these challenges. This will eventually enhance strategic performance and serve as a source of reference for future strategies being formulated.

Other firms not necessarily in the Soft Drinks industry and are facing the same challenges faced by Coca-Cola Kenya can borrow a leaf and adopt the relevant mechanisms used by Coca-Cola Kenya to overcome its challenges of competition. In addition, investors planning

to venture in the Soft Drinks Industry in Kenya will gain an insight on the nature of the industry and assist them in making proper investment decisions.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the related literature on industry competition, challenges of competition, concept of strategy and ends by reviewing competitive theories by scholars. This research has drawn material from several sources which are closely related to the theme and the objectives of the study.

2.2 Industry Competition

An industry is a group of companies that produce similar products or services. In a particular industry, the firms are always competing with each other in order to sustain and grow. There are a few theories that try to define industry competition amongst which Porter's Five Forces Model and two types of advantages, cost advantage and differentiation advantage are noteworthy. Porter (1998) argues that industry structure and the positioning within a particular industry are the basis of his theory of competitive advantage. As per Porter, the ultimate aim of any competitive strategy is to cope and change the rules in the behavior of any firm.

The firms create competitive advantage by discovering better and innovative ways and bring them to the market to act as innovations. These innovations shift the competitive advantage when the rivals fail to perceive new ways of competing or are unable to respond. A particular firm gains the competitive advantage by performing the strategically important activities in a more cheap way than its competitors. In other words, it is able to deliver similar benefits like its competitors, but at a much lower cost. A firm might also deliver benefits that exceed the benefits of its competitors' products. Therefore, competitive advantage enables a firm to create greater value for the customers and in turn, higher benefits for itself (Fleischer, 2003).

Porter has identified five basic competitive industry forces that can ultimately influence profitability at the firm level. These forces include intensity of rivalry among incumbent firms in the industry, threat of new entrants in the industry, threat of substitute products or services, bargaining power of buyers of the industry's outputs, and bargaining power of suppliers to the industry. These five forces explain the rules of competition in any industry. However, different economic studies have affirmed that different industries can sustain different levels of profitability because of their differences in industry structure.

The intensity of rivalry among firms varies across industries. If rivalry among firms in an industry is low, the industry is considered to be disciplined. On the other hand, when a rival acts in a way that elicits a counter response by other firms, rivalry intensifies. The intensity of rivalry commonly is referred to as cutthroat, intense, moderate or weak based on the firm's aggressiveness in attempting to gain an advantage. Industry characteristics that influence intensity of rivalry include a large number of firms, slow market growth, high fixed costs, high storage costs or highly perishable products, low switching costs, low levels of product differentiation and high exit barriers. Porter (1998) states that in pursuing an advantage over its rivals, a firm can choose from several competitive moves that include changing prices, improving product differentiation, creatively using channels of distribution and exploiting relationships with suppliers.

A threat of substitutes exists when a product's demand is affected by the price change of a substitute product. In Porter's model, substitutes are alternative offerings produced by firms in another industry that satisfy similar consumer needs. The competition engendered by threat of substitutes comes from products outside the industry. Although they emanate from outside the industry, substitutes can limit the prices that firms can charge. A product's price elasticity is

affected by substitute products because when more substitutes become available, the demand becomes more elastic since customers have more alternatives. A close substitute product constrains the ability of firms in an industry to raise prices.

According to Porter, the power of buyers is the impact that customers have on a producing industry. In general, when buyer power is strong, the relationship to the producing industry is near to monopsony, that is, a market in which there are many suppliers and one buyer. Under such market conditions, the buyer usually sets the price. Buyers are powerful when they are concentrated with significant market share, when they purchase a significant proportion of output and when they possess a credible backward integration threat. They are however weak when producers threaten forward integration, when they cannot easily switch to another product, when they are fragmented and when producers supply critical portions of buyers' input.

Another force that influences industry competition according to Porter is supplier power. A producing industry requires raw materials, labour, components and other supplies for its operations to run smoothly. This requirement leads to buyer-supplier relationships between the industry and the firms that provide it the raw materials used to create products. Suppliers if powerful can exert an influence on the producing industry such as selling raw materials at high prices to capture some of the industry's profits. Suppliers are powerful when they have credible forward integration, they are concentrated and when it will be a significant cost to the producing company to change suppliers. They will however be weak when there are many competitive suppliers, when the producing companies have credible backward integration and when purchasers are concentrated.

In an industry, it's not only incumbent rivals that pose a threat to firms; the possibility that new firms may enter the industry also affects competition. In theory any firm should be able to enter and exit a market and if free entry and exit exists, then profits always should be nominal. In reality however, industries possess characteristics that protect the high profit levels of firms in the market and inhibit additional rivals from entering the market. Barriers to entry are unique industry characteristics that define the industry. Barriers reduce the rate of entry of new firms thus maintaining a level of profits for those already in the industry. From a strategic perspective, barriers can be created or exploited to enhance a firm's competitive advantage. Barriers to entry can arise from government creating barriers, patents and proprietary knowledge, asset specificity and organizational economies of scale. Barriers to exit work similarly to barriers to entry and limit the ability of a firm to leave the market. An industry is easy to enter when there is common technology, access to distribution channels and little brand franchise. However an industry is difficult to enter when there is patented or proprietary know how, difficulty in brand switching, and restricted distribution channels. An industry on the other hand is easy to exit when assets are sellable, there are low exit costs and when it's an independent business. It is however difficult to exit when assets are specialized, there are high exit costs and when the businesses are interrelated.

2.3 Challenges of Competition

New entrants to an industry bring new capacity and a desire to gain market share that puts pressure on prices, costs, and the rate of investment necessary to compete. Particularly when new entrants are diversifying from other markets, they can leverage existing capabilities and cash flows to shake up competition. The threat of entry, therefore, puts a cap on the profit potential of an industry. When the threat is high, incumbents must hold down their prices or boost investment to deter new competitors. The threat of entry in an industry depends on the

height of entry barriers that are present and on the reaction entrants can expect from incumbents. If entry barriers are low and newcomers expect little retaliation from the entrenched competitors, the threat of entry is high and industry profitability is moderated. It is the threat of entry, not whether entry actually occurs, that holds down profitability (Porter, 2006).

Powerful suppliers capture more of the value for themselves by charging higher prices, limiting quality or services, or shifting costs to industry participants. Powerful suppliers, including suppliers of labor, can squeeze profitability out of an industry that is unable to pass on cost increases in its own prices. Microsoft, for instance, has contributed to the erosion of profitability among personal computer makers by raising prices on operating systems. PC makers, competing fiercely for customers who can easily switch among them, have limited freedom to raise their prices accordingly. Powerful customers, the flip side of powerful suppliers can capture more value by forcing down prices, demanding better quality or more service thereby driving up costs and generally playing industry participants off against one another, all at the expense of industry profitability. Buyers are powerful if they have negotiating leverage relative to industry participants, especially if they are price sensitive, using their clout primarily to pressure price reductions. As with suppliers, there may be distinct groups of customers who differ in bargaining power (Porter, 2008).

Substitutes perform the same or a similar function as an industry's product by different means. Substitutes are always present, but they are easy to overlook because they may appear to be very different from the industry's product. When the threat of substitutes is high, industry profitability suffers. Substitute products or services limit an industry's profit potential by placing a ceiling on prices. If an industry does not distance itself from substitutes

through product performance, marketing, or other means, it will suffer in terms of profitability and often growth potential. Substitutes not only limit profits in normal times, they also reduce the bonanza an industry can reap in good times. In emerging economies, for example, the surge in demand for wired telephone lines has been capped as many consumers opt to make a mobile telephone their first and only phone line (Smith, 2003).

Rivalry among existing competitors takes many familiar forms, including price discounting, new product introductions, advertising campaigns, and service improvements. High rivalry limits the profitability of an industry. The degree to which rivalry drives down an industry's profit potential depends, first, on the intensity with which companies compete and, second, on the basis on which they compete. The strength of rivalry reflects not just the intensity of competition but also the basis of competition. The dimensions on which competition takes place, and whether rivals converge to compete on the same dimensions, have a major influence on profitability. Rivalry is especially destructive to profitability if it gravitates solely to price because price competition transfers profits directly from an industry to its customers. Price cuts are usually easy for competitors to see and match, making successive rounds of retaliation likely. Sustained price competition also trains customers to pay less attention to product features and service (Gordon, 1989).

2.4 Concept of Strategy

The word "Strategy" has become one of the dynamic words in the English language. This is because it is believed to offer those using it an advantage over their rivals. Hence it is a commonly used concept in both the military and business spheres where competitive strength is expected to bring success. Chandler (1962) first articulated the notion of strategy as the determination of the basic long term goals and objectives of an enterprise, adoption of courses

of action and the allocation of resources necessary to carry out these goals. According to Johnson and Scholes (2002), strategy is the direction and scope of the organization over the long term, which achieves advantage for the organization through its configuration of resources within a changing environment and fulfills stakeholders expectations. Mintzberg (1994) defines strategy as a plan, ploy, pattern, position and perspective. Quinn (1980) on the other hand defines strategy as a pattern or plan that integrates an organization's major goals, policies and action sequences into a cohesive whole. Strategy therefore provides the link between where the organization is at present and where it would like to be in the future.

According to Bradford and Duncan (2004), one of the basic concepts of business strategy is that organizations operate within an external environment. This environment is complex and constantly changing, sometimes with unfavorable effects on organizational performance. In order to survive within this changing environment, organizations must find a way to fit themselves successfully into it. A means of helping maintain a good fit is by assessing key variables or dimensions of the environment and then adapting the organization to those dimensions. The PESTEL analysis is a general analytical tool for helping with this process. The PESTEL analysis is a framework for assessing this general or macro environment in which an organization operates. It consists of six key dimensions within which external environmental conditions can be assessed and include political, economic, sociodemographic, technologic and environmental aspects.

Henderson (1981) states that for strategy to be possible, it is necessary to be able to imagine and evaluate the possible consequences of alternative courses of action. But imagination and reasoning power are not sufficient. There also must be knowledge of competition and the characteristic higher order effects of alternative actions. That knowledge must reach a critical

mass before it becomes really significant. Until enough relationships have been integrated to see the whole pattern, knowledge is no more than the individual pieces of a jigsaw puzzle. Strategy has been practiced whenever an advantage was gained by planning the deployment of resources while accounting for the capabilities and behavior of competition. Companies that are not able to learn, adapt, and apply emerging insights at an accelerated rate are subject to Darwinian natural selection.

2.5 Competitive Strategies

Competitive strategy refers to how a company competes in a particular business. It is concerned with how a company can gain a competitive advantage through a distinctive way of competing. Today's dynamic markets and technologies have called into question the sustainability of competitive advantage. Under pressure to improve productivity, quality, and speed, managers have embraced tools such as Total Quality Management, benchmarking, and reengineering. Dramatic operational improvements have resulted, but rarely have these gains translated into sustainable profitability.

As managers push to improve on all fronts, they move further away from viable competitive positions. Porter (1998) argues that operational effectiveness, although necessary for superior performance, is not sufficient because its techniques are easy to imitate. In contrast, the essence of strategy is choosing a unique and valuable position rooted in systems of activities that are much more difficult to match. Sustainable competitive advantage is the prolonged benefit of implementing some unique value creating strategy based on unique combination of internal organizational resources and capabilities that cannot be replicated by competitors.

2.5.1 Porter's Generic Strategies

Porter (1980) described a category scheme consisting of three general types of strategies that are commonly used by businesses to achieve and maintain competitive advantage. These three generic strategies are defined along two dimensions, strategic scope and strategic strength. Strategic scope is a demand side dimension and looks at the size and composition of the market an organization intends to target. Strategic strength is a supply-side dimension and looks at the strength or core competency of the firm. In particular he identified cost leadership, differentiation, and market segmentation or focus.

The cost leadership strategy involves the firm winning market share by appealing to cost-conscious or price-sensitive customers. This is achieved by having the lowest prices in the target market segment, or at least the lowest price to value ratio i.e. price compared to what customers receive. To succeed at offering the lowest price while still achieving profitability and a high return on investment, the firm must be able to operate at a lower cost than its rivals. The three main ways to achieve this are, achieving a high asset turnover, achieving low direct and indirect operating costs or having control over the supply or procurement chain to ensure low costs. A cost leadership strategy may have the disadvantage of lower customer loyalty, as price-sensitive customers will switch once a lower-priced substitute is available. A reputation as a cost leader may also result in a reputation for low quality, which may make it difficult for a firm to rebrand itself or its products if it chooses to shift to a differentiation strategy in future.

Differentiation strategy calls for development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition. A 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. These could include patents or other Intellectual Property, unique technical expertise, talented personnel or innovative processes. Successful brand management also results in perceived uniqueness even when the physical product is the same as competitors. Fashion brands usually rely heavily on this form of image differentiation in order to compete successfully.

This focus strategy is not a separate strategy per se, but describes the scope over which the company should compete based on cost leadership or differentiation. The firm can choose to compete in the mass market with a broad scope, or in a defined, focused market segment with a narrow scope. In either case, the basis of competition will still be either cost leadership or differentiation. In adopting a narrow focus, the company ideally focuses on a few target markets also called a segmentation strategy or niche strategy. These could be distinct groups with specialized needs. The choice of offering low prices or differentiated products/services should depend on the needs of the selected segment and the resources and capabilities of the firm. By focusing marketing efforts on one or two narrow market segments and tailoring its marketing mix to these specialized markets, a firm can better meet the needs of that target market. The firm typically looks to gain a competitive advantage through product innovation and/or brand marketing rather than efficiency. It is most suitable for relatively small firms but can be used by any company. A focused strategy should target market segments that are less vulnerable to substitutes or where a competition is weakest to earn above average return on investment.

2.5.2 Ansoff's Product-Market Strategies

Ansoff (1965) presented a matrix that focused on a firm's present and potential products and markets or customers. By considering ways to grow via existing products and new products, and in existing markets and new markets, there are four possible product-market combinations. These are market penetration, market development, product development and diversification. In market penetration, the firm seeks to achieve growth with existing products in their current market segments aiming to increase its market share. In market development, the firm seeks growth by targeting its existing products to new market segments. In product development, the firm develops new products targeted to its existing market segments. In diversification, the firm grows by diversifying into new businesses by developing new products for new markets.

The market penetration strategy is the least risky since it leverages many of the firm's existing resources and capabilities. In a growing market, simply maintaining market share will result in growth and there may exist opportunities to increase market share if competitors reach capacity limits. However market penetration has limits and once the market approaches saturation another strategy has to be pursued if the firm is to continue to grow. Market development options include the pursuit of additional market segments or geographical regions. The development of new markets for the product may be a good strategy if the firm's core competencies are related more to the specific product than to its experience with a specific market segment. Because the firm is expanding into a new market, a market development strategy typically has more risk than a market penetration strategy. A product development strategy may be appropriate if the firm's strengths are related to its specific customers rather than to the specific product itself. In this situation, it can leverage its strengths by developing a new product targeted to its existing customers. Similar to the case

of new market development, new product development carries more risk than simply attempting to increase market share.

Diversification is the most risky of the four growth strategies since it requires both product and market development and may be outside the core competencies of the firm. However diversification may be a reasonable choice if the high risk is compensated by the chance of a high rate of return. Other advantages of diversification include the potential to gain a foothold in an attractive industry and the reduction of overall business portfolio risk. Diversification can be done in four ways which include horizontal diversification where the firm acquires or develops new products that could appeal to its current customer groups even though those new products could be technologically unrelated to the existing product lines, vertical diversification where the firm moves into the business of its suppliers or into the business of its customers. Concentric diversification results in new product lines or services that have technological and/or marketing synergies with existing product lines even though the products may appeal to a new customer group. Conglomerate diversification results where there is neither technological nor marketing synergy and this requires reaching new customer groups. It is sometimes used by large companies seeking ways to balance a cyclical portfolio with a non-cyclical one.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out the research methodology that was adopted so as to meet the objectives of this study. The research design, data collection method and data analysis techniques that were used are discussed.

3.2 Research Design

This study adopted a case study research design where the unit of study was the Coca Cola Kenya. A case study is an in-depth investigation of an individual, institution or phenomenon (Mugenda and Mugenda, 2003). A case study was considered appropriate for this research as it involves complete observation of one institution emphasizing in depth rather than in breadth analysis. The design is most appropriate when detailed, in-depth analysis for a single unit of study is desired. Case study research design provides very focused and valuable insights to phenomena that may otherwise be vaguely known or understood. In a case study, nearly every aspect of the subject's life and history is analyzed to seek patterns and causes for behavior.

3.3 Data Collection

Primary data was used to obtain information for the study. Interview guides were administered among five senior managers in Coca-Cola Kenya to collect primary data (See Appendix 2). They included marketing manager, strategic planning and innovation manager, continuous improvement manager, research and development manager and supply chain manager. The interview guides were unstructured and had open-ended questions. This less structured approach allowed the interviews to be much more like conversations than formal

events with predetermined response categories, permitting the respondents' views to unfold. The interview guides were administered on a face to face basis.

3.4 Data Analysis

Given the fact that the primary data was qualitative in nature, content analysis was the best suited method of analysis. Content analysis is a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same approach to relate trends (Creswell, 2003). Content analysis is further argued that the method is scientific as the data collected can be developed and be verified through systematic analysis (Strauss and Corbin, 1990).

CHAPTER FOUR: FINDINGS AND DISCUSSIONS

4.1 Introduction

This research had two objectives; to determine the challenges of competition faced by Coca-Cola Kenya in the Soft Drinks Industry and to establish the Competitive Strategies Coca-Cola Kenya has adopted to cope with competition in the Soft Drinks Industry. Data collected was analyzed using content analysis based on the meaning and implications emanating from interviewees hence establish research findings.

The chapter is based on the interviews conducted with five heads of departments which gave a response rate of 100%. The commendable response rate was achieved after frantic effort at booking appointments with the interviewees despite their tight schedules and making phone calls to remind them of the interview. Analysis and results are presented in order of objectives.

4.2 General Information

The main Coca-Cola products in the Kenyan market are carbonated soft drinks like Coke and Fanta, non-alcoholic malt based drinks like Novida, Dasani mineral water, juices like Minute Maid and Chaywa which includes different types of coffee and tea. The target market of Coca-Cola varies according to product for example Fanta targets young children, Sprite targets sports men and women, Coke Light and Coke Zero targets the diabetics. Products like the Tonics, Krest Bitter Lemon and Novida mostly target the bars and restaurants since they act as good mixers for the alcoholic spirits like vodka, brandy and gin.

Competition in the Soft Drinks Industry has become very intensive especially from the juice manufacturers, Kevian being the biggest competitor. This is because Kenyan consumers are moving towards drinking fresh juices especially the ready to drink ones like Afia which they perceive to be healthier. In addition to the juice manufacturers, very many bottled water producers have sprung up hence posing a big threat to the Coca-Cola Company, notable one being Keringet.

4.3 Challenges of Competition faced by Coca-Cola Kenya

The study sought to determine from the interviewees the challenges of competition that were facing Coca-Cola in the Soft Drinks Industry. The interviewees indicated that the biggest competition challenge Coca-Cola faced was new entrants in the industry who bring new capacity and a desire to gain market share that puts pressure on prices, costs and the rate of investment necessary to compete. Kevian which manufactures juices like Afia and Pick and Peel is currently their biggest competitor especially through Afia which has made consumption of soda to go down hence reducing the market share of Coca-Cola Kenya in the Soft Drinks Industry from 97.8% to 77.7%. This reduction in consumption of soda has been attributed to the belief by consumers that fresh juices are healthier than carbonated soft drinks and was further made worse by the recent information released by World Food and Drug Association that Coke had an ingredient in excess of what is required and could be carcinogenic at those levels.

Another new entrant that is giving Coca-Cola a hard time according to the interviewees is Keringet bottled water. Keringet boasts of its water being natural and bottled at source aiming to outshine Dasani which is purified water then minerals added after purification. Again consumers are attracted by the 'natural' in the Keringet water that they perceive to be

healthier than Dasani in which the minerals are added during bottling. Crown Foods, the producers of Keringet water has also got into partnership with various five star hotels in the country to sell to them their water but branded with brands of their choice, usually the name of the hotels they are bottling for. This has also greatly reduced the Dasani sales considerably.

The interviewees reiterated that Pepsi Cola is another new entrant in the Kenyan Soft Drinks Industry that has come in a big way. Despite the fact that their production plant at Baba Dogo is not complete, they are already distributing and selling their products imported from Uganda all over the big cities in Kenya. They have their distributors located all over the prime markets in Kenya and have a variety of products that resemble the Coca-Cola products in taste, packaging and are even slightly cheaper. Curious and price sensitive Kenyans are trying out their various products and getting hooked to them especially because of their similarity to and slightly lower prices than the Coca-Cola products. Coca-Cola Kenya is also expecting competition from the newly launched mineral water, Waba that has recently hit the markets.

Rivalry between Coca-Cola Kenya and its competitors has taken the form of price discounting. Rivalry is especially destructive to profitability if it gravitates solely to price as has been the case with Coca-Cola Kenya and Kevian (Porter, 1998). Kevian reduced the price of one crate of its juice by Ksh 125 thus making retailers and wholesalers stock it more and ultimately make more profit from it than from the Coca-Cola products. This has posed a very big challenge to the Coca-Cola Company and forcing it to reduce the prices of its PET products. Kevian has also adopted a strategy called consignment stocking where it stocks up its products at the distributor by allowing them to have the products on credit basis rather than cash basis. Despite the big risk they are taking by doing this, it has worked for them since Afiya juice is literally everywhere one goes.

Threat of substitutes has also been a big challenge to Coca-Cola notably new products like Horlicks, a malt based healthy drink, Nestea a ready to drink tea from Nestle and energy drinks such as Vitam 500, Shark and Redbull. Juice imports such as Azam from Israel is also being received well by the Kenyan consumers hence a threat to Coca-Cola Company. Flavoured milk products such as strawberry, chocolate and vanilla flavoured milk manufactured by Kenya Co-operative Creameries and targets young children have not been left behind either. They are affordable and the issue of healthier products once again here gives Coca-Cola Company a big blow.

Inflation, as the interviewees stated has been another headache for the Coca-Cola Company. The price of almost every commodity has gone up forcing the consumer to choose or prioritize on what to buy. The share of wallet theory comes into play in this case, where a consumer will prioritize to buy a packet of milk that will make tea for the whole family than a bottle of soda which will just be consumed by one or two members of the family. Inflation has really made the sales of Coca-Cola products go down thus affecting profits considerably. Powerful suppliers especially the suppliers of packaging materials have really affected profits of Coca-Cola products. The suppliers of caps and bottles are mostly a monopoly in the country and in particular the supplier of the Coca-Cola closures sells to them in dollars so when the dollar went up, Coca-Cola was really hit hard and being a monopoly, they has no other supplier to turn to and worse still they could not increase the soda prices because Pepsi Cola was already charging a lower price than them. The recently enacted act, the Alcohol Act famously known as 'Mututho Law' has also affected the sales of Coca-Cola products that are sold in bars like the tonics that act as mixers for alcoholic spirits.

4.4 Competitive Strategies adopted by Coca-Cola Kenya

All the interviewees agreed that indeed competition has been cut-throat and Coca-Cola has to act fast to remain competitive and relevant in the market and moreover retain or increase its market share in the industry. With the many competition challenges it has been facing, Coca-Cola has adopted various competitive strategies to cope with them. The chapters below discuss the various competitive strategies Coca-Cola Kenya has adopted to effectively and efficiently compete with its rivals in the Soft Drinks Industry in Kenya.

4.4.1 Introduction of new and healthier Products

Coca-Cola has stepped up its diversification plan in Kenya with an upgrade of its juice making subsidiary, Beverage Services Kenya (BSK), putting it in a head to head battle with market leader Kevian Kenya Limited that manufactures the Afia and Pick and Peel juices in both plastic and tetra packs. The Kenyan soft drinks market is currently experiencing a huge evolution, bringing increased focus on juices and malt-based soft drinks. There is steady increase in consumption of fruit and vegetable juices in Kenya with analysts estimating a volume growth of 3% annually.

With this new evolution and the awareness that juices are healthier drinks, Coca-Cola Kenya has revamped the Beverage Services Kenya (BSK) plant in Nairobi and turned it into the competitive hub for juice manufacturing. Before, Beverage Services Kenya (BSK) produced carbonated soft drinks like Coke, Fanta and Sprite in the plastic (PET) bottles and Minute Maid juices on a small scale. With the intense competition it got from Kevian and other juice manufacturing companies, Coca-Cola Kenya decided to make Beverage Services Kenya exclusively a juice manufacturing company to effectively compete with the other juice manufacturers. The carbonated soft drinks both in returnable glass bottles and plastic bottles

were left for the other Coca-Cola bottlers in the country. Coca-Cola Kenya even changed the name Beverage Services Kenya (BSK) to Coca-Cola Juices Kenya Limited and introduced more Minute Maid juice flavours from the previous three. Another new and healthy product recently introduced by Coca-Cola Kenya is the Minute Maid Pulpy which is deemed healthy because of the orange pulp in the drink that makes the consumers feel like they are actually eating an orange.

4.4.2 Launching of more Brands

According to the interviewees, Coca-Cola Kenya has introduced more brands and pack sizes to give consumers a variety of products to choose from and also give consumers what they want, from the market researches they conduct. It has recently introduced Fanta Pineapple, Fanta Strawberry, Malt based Novida in Mandarin and Lemon flavours, Coke Zero and Krest Bitter lemon flavour in plastic (PET) bottle. The interviewees said that they offer a wide variety of beverages in different pack sizes to meet consumer needs and desires. With the variety, consumers are able to make sensible beverage choices compatible with their lifestyle since consumers remain at the centre of everything they do. From research, they say they are aware that their consumers are looking for innovation through diverse and occasion-based product offerings.

The interviewees further went on to say that in line with introduction of new products is brand positioning. They believe that everyone in Kenya now has something to drink from the variety of drinks Coca-Cola Kenya has to offer. Coke Light is available for diabetics and those who want low calorie drinks and better still, those consumers have a reason to smile because of the recent introduction of even a lower calorie drink, Coke Zero. The tonics and the Novida flavours are for the alcoholic spirits consumers who use them as mixers in bars and

restaurants while the Fanta flavours are for the young children. Sports men and women are not left behind either because they have Sprite and Burn, a non-alcoholic energy drink. The introduction of the plastic bottles has also enhanced portability and given consumers a chance to carry their drinks home especially with the newly introduced law of not being in bars and restaurants past 11pm. The 200ml pack of coke is targeted for the slum dwellers who cannot afford the bigger packs hence the small pack which is more price friendly to them.

4.4.3 Distribution

Coca-Cola Kenya has adopted a Route to Market strategy in its distribution system. According to the interviewees, a company could have the best product or service in the world, but it will fail if it does not put it in front of the right customers. To maximize its chances of business success, it will need to identify and focus on the most effective routes to its market. It will need to ask its customers what they buy, where they buy, how they prefer to buy and why they buy. Different customers in different sectors can have very different buying habits and expectations. Hence Coca-Cola Kenya has adopted this strategy to better satisfy its customers.

Coca-Cola Kenya has moved from a centralized distribution model to a hub-and-spoke approach. Rather than transporting beverages directly from the bottling plants to retailers, its goods are now sent first to a "hub," and are then parceled out to nearby "spoke" centers when orders need filling. Among the benefits, this approach reduces costs because fewer long-haul journeys in large, uneconomical vehicles are needed, while efficiency increases through more timely, tailored fulfillment. In Nairobi alone, it has more than 250 Manual Distributing Channels (MDCs) even in the remotest areas of Nairobi so that its products reach each and every consumer when needed. The products required are made available at all times for

example from the sales statistics, Fanta Black currant sells a lot in the North Eastern part of Kenya therefore it is always made available at all times in that region.

There are customer loyalty programmes which are carried out to motivate the manual distributors and retailers. Their loyalty is rewarded through incentives such as free products and discounts. Trade fortification programmes like giving equipment such as coolers, ice boxes and ice chests are also being done in various regions. Some of these ice chests are movable on wheels so that some retailers can actually hawk products to reach consumers instead of consumers looking for them. The incentive programmes is not only targeted to the retailers and distributors but also to the company sales force, they are given handsome rewards when they surpass their targets. Coca-Cola Kenya also intends to open more outlets across its various regions.

4.4.4 Pricing

All the interviewees agreed that there have been price wars between the Coca-Cola Kenya and its competitors forcing it to cut prices especially in the 300ml returnable glass bottled pack which they have reduced the price from twenty five to twenty three shillings and the 500ml plastic pack from fifty five to fifty shillings . The interviewees said that their pricing strategy aims at ensuring affordability of their brands in as much as they were forced to do so also because of their competitors. They however say that several factors go into building a company's competitive advantage and not just price cuts. They believe that they are well placed to maintain their leadership role in the non-alcoholic beverage industry in the market since their intent is to always offer value to their customers while at the same time managing their business cost structures.

4.4.5 Marketing Campaigns

The interviewees pointed out that effective marketing is often what separates rapidly growing companies from slow-growing or stalled companies that started at the same time, serve the same market and offer similar merchandise. Coca-Cola Kenya has succeeded in a highly competitive market because, while it certainly produces competitive products, it out-markets its rivals. They intimated that for their business to grow to the size it is now, they have to become effective marketers, advertisers and promoters of their business.

They further said that their campaigns have been successful because they had been carefully researched, well thought-out and they focused on details and execution, rather than resting on a single, grand idea. In addition, they all believed that planning a marketing campaign starts with understanding the company's position in the market and ends with details such as the wording of an advertisement. However, they had to leave room to make changes along the way because no plan can perfectly capture reality.

The most recent campaign by Coca-Cola has been the Pan African campaign drumming optimism in Africa dubbed the "A Billion Reasons to Believe in Africa". The Pan African campaign is geared towards inspiring Africans to see the brighter side of their continent and use their capabilities to fuel positive change. The interviewees said that there are close to a billion people in Africa and they believe that each of them has a reason to believe in the continent. They plan to capture and share these reasons across the continent in order to inspire all Africans to turn things around and be proud of the continent they live in. Through the campaign, Coca-Cola hopes to fully unlock the meaning of happiness in the context of African Youth by going beyond offering people the world's favorite refreshing drink, to influencing how African youth understand themselves in relation to the continent's ideals.

With the future of Africa resting on the younger generation, the Company plans to use teenagers to transmit positive African messages. The campaign was brought to life through traditional advertising on TV, radio and Billboards and in-trade marketing materials such as posters wall branding as well as interactively on social media platforms such as Facebook, twitter and the blogosphere.

The other marketing campaigns adopted by Coca-Cola Kenya include sponsoring local music concerts such as 'Chaguo la Teeniz', a youth music concert that markets the Fanta brand, Groove awards that appreciates the local gospel artistes, Copa Coca-Cola, grass roots football that aims at developing young talent. It is also doing walls and shops branding and aims to brand 375 k Sq.ft by end of 2012. Of importance to note is also the tactical Market Impact Trade where representatives from each department, senior managers included go to the market for one week to push sales together with the sales team and the distributors. This aims at finding out what their customers really want, observe how customers are treated, as well as the kinds of products that appear important to them then adapt their business accordingly. Coca-Cola Kenya has also adopted ambush marketing during various sporting events like Safaricom Sevens Rugby tournaments and football matches.

4.5 Long Term Competitive Strategies

The battle for control of Kenya's beverage market has intensified and Coca-Cola has splurged five billion shillings to protect its turf and win in the price and market share wars and ultimately remain the market leader. The interviewees pointed out that their business is robust in the region and that they are focused on the long term in every market they serve. The company believes that the strategy of targeted consumer marketing at the points of sale and their commitment to offer beverages tailored to specific markets and consumer needs will

work for them. They said that even though the future is unpredictable and that they may experience headwinds along the way, they believe that there is no better consumer business to be in than the non-alcoholic ready to drink manufacturing business.

They all iterated that the non-alcoholic beverage space across the world, including East and Central Africa region is highly competitive and all markets are contested by both local as well as international players. Moreover they continue to see increased competition across all categories, from sparkling beverages, to juices, to energy drinks and water in the market. However they believe that as long as they keep a deep engagement with consumers, a mutual respect and trust with their bottling partners, a great relationship with their retailers, commitment to sustainability and a deep passion for what lays ahead, their business will be in a very competitive position. They are positive that no one speaks the language of refreshment better than Coca-Cola.

The interviewees shared that over the next three years, Coca-Cola Kenya plans to invest 5.2 billion shillings and this is for the long term. The investments fall into several areas including the modernization of equipment and expanding existing capacity in order to meet the ever growing consumer needs. It also plans to increase its presence in juice and this investment will ensure that it is well equipped to manage its growing business in the country. Also, as part of its commitment towards developing the juice manufacturing sector, it will partner with the Bill and Melinda Gates foundation in the tune of 924 million shillings. The partnership will give more than 35,000 mango and fruit farmers from the Rift Valley, Central, Mount Kenya and Eastern provinces access to the Coca-Cola local supply chain for the first time. As a result, these farmers will have the potential to see their farm incomes double by 2014.

Concerning the challenge of competition Coca-Cola is experiencing in the bottled water category, the interviewees said that they have strategies in the pipeline to cope with that however they would not discuss the specifics for competitive reasons. Consumers however should be rest assured that Coca-Cola will continue to provide an incredibly broad portfolio of brands and constantly aim at enhancing companywide capabilities of consumer marketing and commercial leadership. The interviewees were all positive about their business in the long term and being in such a competitive market, Coca-Cola must always address future priorities in what would be termed as the spirit of constructive discontentment. They all echoed confidence that Coca-Cola is well placed to maintain its leadership in the market.

CHAPTER FIVE: SUMMARY, RECOMMENDATIONS AND CONCLUSION

5.1 Introduction

This chapter summarizes the findings of the study, gives recommendations and conclusions in relation to the objectives of the study. It also includes the limitations of the study and suggestions for further research.

5.2 Summary of Findings

Businesses exist in a competitive environment. In any particular industry, the firms are always competing with each other in order to sustain and grow. Porter (2008) states that understanding the competitive forces, and their underlying causes, reveals the roots of an industry's current profitability while providing a framework for anticipating and influencing competition and profitability over time. After understanding the nature of competition an organization then follows sound strategy or strategies to gain a competitive advantage. A competitive advantage exists when a firm has a product or service that is perceived by its target market customers as better than that of its competitors. Competitive advantages give a company an edge over its rivals and an ability to generate greater value for the firm and its shareholders. The study sought to determine the challenges of competition faced by Coca-Cola Kenya in the Soft Drinks Industry and to establish the Competitive Strategies that it has adopted to cope with competition in the Industry.

Within the context of Porter (1998), an industry's productive capacity expands when new competitors enter. Unless the market is growing rapidly, new entrants intensify the fight for market share, thus lowering prices and ultimately, industry profitability. This was the case

with Coca-Cola when Kevian entered the market with its juices and Pepsi with its carbonated soft drinks at much lower prices. The study deduced that Coca-Cola market share in the Kenyan Soft Drinks Industry has gone down as a result of this and it was even forced to reduce the prices of some of its products.

Health-consciousness has increasingly becoming a key factor in the industry. With strong media campaigns promoting health awareness, consumers have become more health-conscious when selecting soft drinks. Over time, this is forecast to impact volume sales of carbonates, the largest percentage of Coca-Cola products, as more consumers become increasingly aware of the health risks of these products and their link with obesity. This trend, however, tends to be concentrated in urban rather than rural areas, which could be the reason behind Coca-Cola moving the Copa Cola tournament to rural Kenya. When large, established firms control an industry, new entrants are often pelted with retaliation when they establish their operations or begin to promote their products aggressively. In line with this, Coca-Cola Kenya has revamped former Beverage Services Kenya making it an exclusive juice manufacturing plant and introduced a healthier drink, Minute Maid pulpy to compete effectively with its arch rivals Kevian and other juice manufacturing companies.

The study also established that US multinational Pepsi Cola, and London based SABMiller have set up local operations in a major shift tipped to shake up the industry currently in the tight grip of global giant Coca-Cola. They are in the process of establishing a manufacturing presence in Nairobi even as market data points to a flattening market for soft drinks. PepsiCo has acquired 14 acres of land at Nairobi's Ruaraka estate through SBC Kenya Ltd, a Franchise Bottler and Distributor of Pepsi products and is putting up a Sh2.4 billion plant from where it will produce at least six of its brands while SABMiller has taken control of

family owned Crown Foods, the bottlers of Keringet brand of drinking water. Coca-Cola as a result has introduced more brands in different packs targeting different markets and consumers.

With competition being intense in the industry, the study also found out that Coca-Cola Kenya has intensified its distribution system, adopting the route to market strategy and off-trade outlets such as supermarkets and independent small grocers who continued to be the preferred channels for soft drinks distribution. These generate stronger sales because of their lower prices, thereby attracting more customers. In addition to intensifying distribution, Coca-Cola Kenya has stepped up its marketing campaigns in a big way. Worth noting is the recent 'Open Happiness' Pan Africa campaign that aims to re-position Coca-Cola as a brand that fathoms African culture better than anyone else, sponsoring concerts like 'Chaguo la Teeniz', and participating in developing young football talent through Copa Coca-Cola.

The study also found that projections indicate continued growth for all categories of soft drinks over the forecast period. Worth noting, however, is the slower growth expected for carbonates and concentrates compared to fruit and vegetable juice, which is set to be the strongest performer in volume terms thanks to continuing interest in healthier products. As a result, Coca-Cola Kenya's long term strategy is to invest more in the juice manufacturing and it will do this by partnering with fruit and vegetable farmers in various parts of Kenya, giving them access to the Coca-Cola supply chain for the first time and enabling them to double their profits by 2014.

5.3 Conclusion of the Study

The study concludes that the Soft Drinks Industry in Kenya has seen increased competition, drawing from different players in the industry most of which are new entrants. For over three decades, soft drinks giant Coca-Cola has dominated the Kenyan market with little competition. Coca-Cola has held sway and vanquished competition by unleashing its enormous financial capabilities in marketing and advertising. However recently, new entrants in the market like Kevian and Pepsi Cola, which stopped bottling in Kenya under competitive pressure from Coca-Cola in the 1970s, have been giving it stiff competition. The competition is expected to take a more vicious route after it emerged that SABMiller, the beverage conglomerate that acquired Crown Foods is planning to go full throttle in the soft drinks market. These challenges that Coca-Cola was facing were further aggravated by consumers' awareness of healthier drinks hence the shift to fresh fruit juices.

The study also concludes that despite these challenges faced by Coca-Cola, it has adopted various strategies to cope with them in its quest to remain the market leader in the soft drinks industry. It has responded to consumer's needs of healthier products and revamped one of its plants to exclusively produce fruit juices of different flavours. In line with this, it has factored in its long term strategies, partnering with fruits and vegetable farmers to make juice manufacturing one of its core operations in Kenya. Coca-Cola Kenya is also continuing to introduce more brands for its consumers so that each and every consumer has something to refresh himself or herself from the wide range of its products. Further still, it has intensified its marketing and distribution system so that its products are available when needed, in the quantities and packs desired by the consumers and at affordable prices.

5.4 Recommendations for Policy and Practice

The following recommendations are worth making in order to more effectively cope with the competition challenges faced by Coca-Cola and retain its market leadership in the industry. As evidenced by the consumer awareness of healthier products, Coca-Cola Kenya should intensify marketing of its juices as much as it does for its core brands like Coke, Fanta and Sprite. It should have more juice advertisements so that consumers out there are aware of its juices and also carry out winning promotions of its juices like the one it is doing for its core brands dubbed 'Chota Chapaa na Coca-Cola'. Over the years, consumers have known Coca-Cola to produce only carbonated soft drinks but with more adverts and other marketing campaigns, they will also know of their range of juices. Coca-Cola Kenya has six bottling plants distributed all over Kenya yet it only has one juice manufacturing plant situated in Nairobi. It should reconsider opening up other juice manufacturing plants in other parts of Kenya. Coca-Cola Kenya should also reconsider replicating to other brands the 200ml pack sold in low income areas like slums and not just limit it to Coke only since other consumers in the areas may not have a preference for Coke flavour.

In its strategies formulation, Coca-Cola Kenya should work hand in hand with its bottlers since they are the ones that operationalize the strategies formulated. The bottlers are the ones on the ground and know exactly what consumers out there want and how intense the competition is hence they should also be allowed to participate in the strategy formulation process. In addition, the strategies adopted should be monitored and evaluated to see whether they are effective and those that are not are done away with.

Coca-Cola Kenya should lobby for better legislation especially in taxation. Kenyan tax rates in comparison with other countries in Africa are way higher. This has limited many

organizations in Kenya when it comes to exporting yet other countries can easily import their beverages into Kenya which eventually bring competition to Coca-Cola. There is tremendous growth potential for Kenya as a result of its steady rate of economic growth, well educated population and efforts by the government in reform and infrastructure upgrade over the last six years. Coca-Cola Kenya should take advantage of these factors to expand its operations in Kenya and diversify its products according to consumer needs. Demographic trends coupled with other factors such as increasing discretionary income and a rising middle class are worth taking advantage of too.

5.5 Limitations of the Study

This study was not without limitations as the interviewees kept rescheduling our meetings due to circumstances they said were unavoidable. In two instances, after reaching the interview venue, I had to leave without carrying out any interview because the interviewees were held up in meetings. One of the interviewees even had to delegate to one of his assistants to be interviewed as he had to travel abroad on a short notice.

The study also faced time and financial limitations. The duration that the study was to be conducted was limited hence exhaustive and extremely comprehensive research could not be carried on the strategies adopted to cope with challenges of competition. Due to limited finances the study could not be carried out on all bottlers in Kenya. The study, however, minimized these by conducting the interview at the Coca-Cola headquarters since it is where strategies are made and rolled out to all bottlers.

5.6 Suggestions for Further Research

Further research on the challenges of competition and competitive strategies to cope with them can be carried out on other companies in the Soft Drinks Industry in Kenya and a cross sectional survey design used to compare and make generalizations. It would also be interesting to carry out the extent of competition challenges and strategies in the year 2013 and beyond which could capture any significant changes in the business operating environment in the country.

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APPENDICES

Appendix I: Letter of Introduction

Dear Sir/Madam,

RE: REQUEST FOR A PERSONAL INTERVIEW TO COLLECT RESEARCH DATA

I am a student at the University of Nairobi pursuing a degree in Master of Business Administration, specializing in Strategic Management. In partial fulfillment of the requirements of the course, I am undertaking a management research project on Competitive Strategies adopted by Coca-Cola Kenya.

I am kindly requesting for a scheduled personal interview to enable me gather the required information. The information that you will provide will not be used for any other purposes other than those of the study and your responses will be treated with utmost confidentiality. I shall be glad to share the outcome of the study upon your request.

Your support will be highly appreciated.

Yours Faithfully,

Mary Amondi Ang'wech.

MBA Student

Appendix II: Interview Guide

General Information

1. What are your main products in the market?
2. What is/are your target markets?
3. How intensive is competition in the Soft Drinks Industry in Kenya?
4. Who are your main competitors?

Challenges of Competition

5. Which competition challenges do you face in the Soft Drinks Industry in Kenya?
6. Why do you feel they are challenges?
7. Does Coca-Cola Kenya also face the challenges of
 - (a) Threat of new entrants
 - (b) Threat of substitute products
 - (c) Rivalry among existing competitors

Competitive Strategies adopted

8. Given that Coca-Cola Kenya faces various competition challenges, what strategies has it adopted to cope with the various challenges?
9. How effective have these strategies been?
10. Has Coca-Cola also adopted any of the following strategies to cope with competition in the industry?
 - (a) Low Cost strategy
 - (b) Differentiation strategy
 - (c) Focus strategy
11. How effective has it/they been?

Thank you for your co-operation