COMPETITIVE STRATEGIES EMPLOYED BY EQUITY BANK LIMITED IN AGENCY BANKING IN KENYA

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DECLARATION

This project is my original work and has not been presented for degree in this or any other university.

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

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DEDICATION

I dedicate this paper to my loving husband for the encouragement and support accorded to me throughout the research process, to my mum and dad for reminding me of my potential and finally to my little son Gian Kihumba for giving me the reason to push on.

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ABBREVIATIONS AND ACRONYMS

ASK	Agricultural Show of Kenya
CEO	Chief Executive Officer
CBK	Central Bank of Kenya
CTS	Cheque Truncation System
EBL	Equity Bank limited
EBS	Equity Building Society
GSMA	(Groupe Spéciale Mobile) Association
GPRS	General Packet Radio Service
IT	Information Technology
KBA	Kenya Bankers Association
KES	Kenya Shilling
KYC	Know Your Customer
RBV	Resource-Based View
R&D	Research & Development
RTGS	Real Time Gross Settlement
SACCO	Savings and Credit Co-operatives
SIM	Subscriber Identity Module
SME	Small and Medium Enterprises
SMS	Short messaging Service
PIN	Personal Identification Number
POS	Point Of Sale
PwC	Price Waterhouse Coopers

ABSTRACT

One of the primary impediments to providing financial services to the poor through branches and other bank-based delivery channels is the high costs inherent in thes traditional banking methods. When financial service providers do not have branches that are close to the customer, the customer is less likely to use and transact with their service. By using agent banking, banks, telecom companies, and other providers are offering saving services in a commercially viable way by reducing fixed costs and encouraging customers to use the service more often, thereby providing access to additional revenue sources. This will drastically change the economics in the banking industry. This paper analyzes the competitive strategies used by Equity Bank in agency banking in Kenya. To achieve this objective, the study intended to use structured questionnaires with open ended questions and the target respondents were the senior employees of Equity Bank strategically involved in agency banking. The researcher was able to get face to face interviews with three employees out of the target of five and combined primary data gathered with secondary data. The data was analyzed using both qualitative and quantitative techniques. The study found that Equity Bank uses the following competitive strategies in agency banking in Kenya: product offering diversification, market intelligence, cost leadership, training and support, corporate social responsibility, relationship management, financing, customer-care support, innovation, geographical coverage, advertising and publicity and information technology and systems. The study found Equity Bank was the first bank to roll out agency banking in Kenya and by June 2012 it has 5,004 operational agents with the aim of increasing the number to 10,000 by end of year 2012. The bank's agency network is processing 25% of all cash transactions for the bank and this has enhanced access by the customers to the bank's products and services and also enhanced convenience. The bank's aim is to tap into the predominant unbanked rural and peri-urban population to deepen access to financial services in line with Vision 2030. The study therefore concludes that Equity Bank has managed to build competitive strategies in agency banking which have enabled it achieve growth in transactions, profitability, customers, deposits, cost reduction and improved brand. This case study is relevant to people studying the following topics: Banking in Kenya, agency banking, micro-finance, competitive strategy and business in Kenya.

CHAPTER ONE: INTRODUCTION

1.1 Background

Competitive strategy is concerned with how a company can gain a competitive advantage through a distinctive way of competing. Having a competitive advantage is necessary for a firm to compete in the market but what is more important is whether the competitive advantage is sustainable. A firm must identify its position relative to the competition in the market by knowing if it is a leader, challenger, follower etc. it can adopt appropriate strategies to compete (Lawrence. et al, 2012). Sustaining competitive advantage requires erecting barriers against the competition by looking at the following: How you compete, basis of competition, where you compete, whom you are competing against and the ways to create barrier to competition. Some benefits of having competitive strategies include; effective support of a company's top line growth objectives by helping develop a differentiated and sustainable competitive position, development of a best practice process to; assess a company's strengths, assess the competitive situation and formulate the appropriate response. It enables an organization to achieve competitive advantage or deliver benefits that exceed those of competing products (Porter, 1980).

The Banking industry is expected to remain strong even in the midst of adversities and challenges. In every nation, the banking institutions are different and unique among the other type of business and because of the uniqueness of the banks, there is a great interest paid by the government in strengthening the financial institutions as accordance to their needs, which is an indication of the continuous growth and competition in the industry (Ndung'u, 2007). The players in the Banking Sector Kenya have continued to innovate in response to mounting competition towards the common goal of offering customers greater convenience. The convergence of banking services and mobile telephony peaked during the year 2010 with several players signing up with mobile service providers to launch payment solutions. Use of advanced technologies will continue to be a key driver of growth and a differentiator among banks. Other positive developments include the licensing of bank agents (agency banking) as well as deposit taking micro finance institutions; and the introduction of Credit Information Sharing following amendments to the Banking Act (Barclay, 2010).

The introduction of agent banking is intended to enable institutions to provide banking services in a more cost effective way, which is equally cheaper to the customers. It is further intended to enhance financial access especially for those people who are currently unbanked. Currently only 34 per cent of Kenya's current population is banked with only 1030 bank branches in the country many of these in urban areas. This means people in rural areas have to travel many kilometers to access the services of a bank. Banks expansion is usually limited due to the high initial cost of opening a branch and in many areas due to the low economic status of the people living in these areas. The initial costs of setting up a branch and running cost takes many years to be translated into profits hence limiting branch expansion (Standard Media, 2012).

Through partnerships with businesses across the country, banks are taking their services closer to the people in areas with potentially less number and volume of transactions. This in turn leads to increased customer base and thus the market share, increased coverage with low cost solution, increased revenue from improved indirect productivity by reducing congestion in existing branches. Customer's visiting the General store benefits from lower transaction costs as it is closer home and hence no need to travel 150 km to a bank, longer banking hours as the Agents are operating for longer hours and shorter queues than in branches. The shopkeeper is also more accessible by the illiterate and the very poor who might feel intimidated by branches. To the shop keeper; the additional customers visiting the shop for banking services also leads to increased sales for his or her goods and services. The shop is differentiated from the other businesses in the area, good reputation from affiliation with a well known reputable institution and additional revenue from commissions and incentives by the bank. The retailers are free to partner with as many banks as possible as long as the primary business activity is ongoing and profitable (Standard Media, 2012).

1.1.1 Competitive Strategies

Strategy is the direction and scope of an organisation over the long-term: which achieves advantage for the organisation through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations. In other words, strategy is about: Where is the business trying to get to in the long-term? (Direction), which markets should a business compete in? And what kinds of activities are involved in such markets? (Markets; scope), what resources (skills, assets, finance, relationships, technical competence, facilities) are required in order to be able to compete? (Resources), what external, environmental factors affect the businesses' ability to compete? (Environment) and what are the values and expectations of those who have power in and around the business? (Stakeholders) (Scholes, 2005). Competitive strategy is a long-term action plan that is devised to help a company gain a competitive advantage over its rival. This type of strategy is often used in advertising campaigns by somehow discrediting the competition's product or service. Competitive strategies are essential to companies competing in markets that are heavily saturated with alternatives for consumers (Porter, 1980). Competitive strategy can also be described as a plan of how a firm will compete, formulated after evaluating how its strengths and weaknesses compare to those of its competitors (Lawrence, et al, 2012).

1.1.2 Banking Industry in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and other various prudential guidelines issued by the Central Bank of Kenya (CBK). All of the policies and regulations that administer the entire banking industry centers in lifting the controls towards the management and equitable services. The industry comprises 43 commercial banks, 1 mortgage finance company, 6 deposit taking microfinance institutions, 4 representative offices of foreign banks, 112 foreign exchange bureaus and 2 credit reference bureaus. The sector improved performance with the size of assets standing at Kes. 2.1 trillion, loans and advances worth Kes. 1.2 trillion, while the deposit base was Kes. 1.6 trillion Beginning of year 2012 (CBK, 2011).

Over the years, the banking industry in Kenya has grown in various financial aspects and competition has become stiff, this has seen successful introduction of innovative products and services and entrance of new entrants in the market Banks are identified to be one of the major players that support the Kenya's socio-economic development. Its role in the society is admired because it boosts the confidence in terms of entrepreneurship. The innovative products in the banking industry serve a great advantage not only on the business but also to provide satisfaction on their long-time customers (PwC, 2012). The continuous excellent performance of the banks reflects in the improvement and stability of the economy. One of the best examples that benefited in the progress of banking sector is the strong existence of small and medium enterprises (SMEs), which became the source of livelihood in Kenya (Ndung'u, 2007).

According to the reports in the financial performance of Kenya, it is noticeable that the mobile banking activities of the customers delivers the best attribute of a bank and thereby, the products and services can adequately provided in Kenya's population. The value assessed from the person-to-person money transaction. which summarizes the traditional banking activities, is expected to be doubled by the innovative changes in the banking environment (Liu and Mithika. 2009). From the past examination and studies regarding the growth in the competition in the banking industry, it is identified the factors such as the internationalization, openness of the financial markets, and banking harmonization which creates an obvious changes in the banking activities, as well as on their performance (Bikker, Spierdijk & Finnie, 2007). In the continuing adoption of the banking in the area of technology and innovation, there is a great expectation on the mobile payment and mobile banking systems.

Some of the specific developments in the banking industry include; expansion of banks through branches across Kenya and the larger East African region, growth of the deposit taking microfinance sub-sector, increased permeation of mobile financial services with an increased number of banks entering into partnership with mobile services providers to provide financial services through the mobile phone platform. The is also increased usage of the agency banking model, which was rolled out in May 2010, to allow commercial banks engage third parties to offer specified banking services on their behalf, use of internet as a remote delivery channel for banking services and development of the CTS (Cheque Truncation System) and RTGS (Real Time Gross Settlement) in conjunction with KBA to speed up the clearing and payment channels (CBK, 2011)

1.1.3 Agency Banking

Banking agents help financial institutions to divert existing customers from crowded branches providing a "complementary", often more convenient channel. Other financial institutions, especially in developing markets, use agents to reach an "additional" client segment or geography. Reaching poor clients in rural areas is often prohibitively expensive for financial institutions since transaction numbers and volumes do not cover the cost of a branch. In such environments banking agents that piggy back on existing retail infrastructure – and lower set up and running cost - can play a vital role in offering many low-income people their first-time access to a range of financial services (Daniel & Matteo, 2010).

"Agent" means an entity that has been contracted by an institution and approved by the Central Bank to provide the services of the institution on behalf of the institution in the manner specified in the CBK guideline. "Agent banking business" means the business carried out by an agent on behalf of an institution as permitted under the CBK guidelines. As at December 2011, there were 8 commercial banks that had contracted 9,748 active agents facilitating over 8 million transactions valued at Ksh.43.6 billion. This represented 3 percent of the total deposit base in the banking industry. Agents have proven to be an avenue to push forward financial inclusion frontiers in unserved areas given that they are cost effective networks which can serve many at minimal costs as compared to physical brick and mortar branches (CBK, 2011).In February 2011, the Central Bank of Kenya (CBK) released regulations to govern a new agency banking model. The regulations allow banks to offer services through third party agents approved by the CBK. Agents can be Telco outlets, SMEs, retail chains, savings and credit co-operatives (SACCOs), or even 'dukas' (corner shops) – essentially any profit-making entity that has been in business for at least 18 months and can afford to fund a float account to facilitate payments. Third parties are vetted and approved under the CBK regulations and are contracted by the bank (s) to provide banking services on their behalf, under specified conditions and regulations from the Central Bank of Kenya.

Agency banking in Kenya is the new way that banking in Kenya is using to take banking services to the unbanked and under banked at a cheaper rate. The banks are training agents who engage in banking services on behalf of the banks. Agency banking is however, not new in the world. It has been used very well in Latin America and Asia. There are few African countries that have taken up agency banking. The agency banking in Kenya guidelines were enacted in 2010. Banks must first apply to Central bank of Kenya to get approval to conduct agency banking business. The board of directors of each banking institution interested in agency banking must make policies guidelines and procedures to be followed to ensure that, the agents are credible, risk identification and mitigation measures are in place and agents are audited on an ongoing basis to ensure that the agents follow the guidelines from central bank, their contracts and the banking policy.

Once an Agent has been vetted and licensed . the Bank brands the shop with visible signage and provide an agent with Point of Sale devices, a mobile phone or both which provides a link to the Bank. Agent Banking works the same way Mpesa does, an agent opens a float account through which deposits and withdrawal will be made. The float account has minimum and balance restrictions. In the case where a Client withdraws money, the following takes place; the Customer initiates the transaction by sending a request to withdraw the funds via his mobile phone to the bank and indicates the retailer's agent code number. The Agent receives a message with a unique transaction code and the customer's details and the amount withdrawn. The customer's account is debited with the funds while The Agent's float account is credited with the same amount. The customer is required to produce identification documents to the Agent who then gives money to the customer.

In case of account deposit, the customer provides his details and gives the Agent the amount to be deposited. The Agent then sends a message to the bank via the mobile phone and his account is debited with the amount while the customer's account is credited with the funds. These services are real time in that a transaction number in SMS format will be sent to both the agent and the customer for the transaction to have been completed successfully(Standard Media, 2012).The transaction process for banking services using a bank card is simple: An existing bank client presents his card at the agent and requests a specific transaction and the amount to be withdrawn, deposited, or transferred; The agent selects the type of transaction on the POS device or personal computer, enters the amount, swipes the client's card through the device, and lets the client enter his/her PIN; A dial up, General Packet Radio Service (GPRS),or satellite communication connects with the bank's server to authorize the transaction; Once the transaction has been authorized, the device prints the client's receipt. Agents are supposed to make their own security arrangements (Standard Media, 2012).

An Equity Agent is a commercial entity that has been contracted by Equity Bank limited and approved by the Central Bank of Kenya to provide specific services on behalf of the bank. This entity shall be equipped with the skills necessary to provide basic banking services according to standards set by the bank. The bank's objective is to offer the full range of banking services to customers without their having to visit a branch. This will provide the opportunity to access financial products and services at a location nearest to the customer, thus breaking down certain barriers to financial inclusion such as cost and accessibility.

The Equity Agent Business is a business opportunity that focuses on delivering financial services in areas beyond the reach of our current traditional branch network through various channels. Equity Bank is determined to be the number one bank in offering banking services through Agent Business. The Bank has systems which enable it to deliver a tremendous advantage of offering cash access to customers through a single point of contact. The bank's Agent Support Teams are committed to maintaining the highest levels of service, payment options, competitive pricing and most importantly, customer support; while the Customer Care teams are available to provide prompt and knowledgeable answers to agent and customer queries 24hrs a day. The bank branches are open from 8.00 am to 4.30pm Monday to Friday and 8.00am to 12 noon every Saturday and the agents are allowed to operate up to 24hrs but for a minimum of 8 hours. (Equity Bank Limited, 2012).

1.1.4 Equity Bank Limited

Equity Bank limited commenced business on registration in 1984. It has evolved from a Building Society, a Microfinance Institution, to now the all inclusive Nairobi Stock Exchange and Uganda Securities Exchange public listed Commercial Bank. It is one of the most profitable companies in East Africa. Since listing in 2006, Equity Bank's shareholder value has grown tremendously creating immense wealth for shareholders. From a customer base of 27,000 in 1993, the bank is now home to 7.8 million accounts accounting for over 50 percent of all bank accounts in Kenya and is the largest bank by customer base in Africa with a focus on providing affordable, accessible and relevant products and services at the bottom of the pyramid. The solidness of Equity Bank is underpinned by its shareholder's funds base of over Kshs 19 billion, making Equity Bank one of the most capitalized banks in the region.

Equity offers financial services through its wide network of over 195 branches in Kenya, Uganda, Tanzania, Rwanda and Sudan supported by Alternate Delivery Channels which include: ATM's, Points of Sale (POS) Terminals, Internet Banking, Mobile banking and Agent Business (Equity Bank Limited, 2012). The bank's vision is "To be the champion of the socio-economic prosperity of the people of Africa" and the mission is "We offer inclusive, customer focused financial services that socially and economically empower our clients and other stakeholders". The vision and mission give an indication of the strategic focus in terms of scope of products and services, markets or geographical area, target group and the desired position among competitors. The bank has continued to maintain its growth momentum with the profit before tax growing by 29% to close at Kshs 7.62 billion in the six month period ending June 30th 2012 despite the challenging micro-economic environment characterized by high inflation, interest rates hikes and foreign exchange volatility. This is due to the rise in total income by 34% from Kshs 13.15 billion to Kshs 17.56 billion mainly driven by the growth in the loans and advances, as well as prudent cost management measures. In the same period, EBL Group's loan book grew by 27% from Kshs 97.7 billion to Kshs 124.4 billion. Total assets grew by 29% from Kshs 171 billion to Kshs 220 billion compared to June 2011. Customer deposits also grew significantly by 22% from Ksh124 billion to Ksh151 billion. This was mainly attributed to the growth in customer numbers which increased from 6.3 million to 7.8 million. This growth is also as a result of innovative use of alternative delivery channels such as agents and the bank's mobile banking platform popularly known as Eazzy 247 (Equity Bank Limited, 2012).

The brand of the bank has also continued to strengthen resulting in the bank attracting more customers and transactions. The continued roll out of the agency banking in 2012 has seen the number of agents grow to 5,004 from 2,301 as at June 2011 which represents a growth of 117%. The bank agency network is processing 25% of all cash transactions and this has enhanced access by the customers to the bank's products and services and also enhanced convenience. The Group continued to be well capitalized as reflected by the 27% capital adequacy ratio which is well above the 12% statutory requirement. Similarly the liquidity of the bank stood at 39% well above 20% statutory requirement (Equity Bank Limited, 2012). The bank continues to receive both local and global accolades for its unique and transformational business model. It is credited for taking banking services to the people through its accessible, affordable and flexible service provision.

Some of the recent accolades and recognitions that Equity Bank limited has received includes; June, 2012: Equity Bank limited CEO and Managing Director Dr. James Mwangi was named 2012 Ernst & Young World Entrepreneur of the Year at a ceremony held in Monte Carlo, Monaco. June 2012: Equity Bank limited was awarded Best Managed Company in Africa award by Euromoney magazine. The Bank won the award on a strong brand pull, regional footprint and corporate governance, based on a survey of market analysts at leading banks and research institutes in Africa and June 2012: Equity Bank limited was awarded the Most Innovative Bank in Africa Award at the African Bankers Awards held in Arusha. The annual awards reward outstanding talent and achievement in Africa's financial sector (Equity Bank Limited, 2012). Though the bank continues to invest in rolling out brick and mortar branches that are complimented by various delivery channels, the challenge of access to formal financial services remains a big impediment to financial inclusion. Kenyans (especially in remote areas) are forced to travel long distances and spend huge amounts on transport in order to access a branch. In addition to the cost of transport is the time spent commuting to and fro that could have been spent more productively. To curb these challenges, the central bank of Kenya released a legislation that allows commercial banks to contract third party retail networks as agents. Upon successful application, vetting and approval, these Agents are authorized to offer selected products and services on behalf of the bank. This relationship creates an Agency Banking business model.

1.2 Research Problem

Porter (1985) identifies firms that practice both cost leadership and differentiation strategies as their competitive strategies simultaneously as being stuck in the middle. (Johnson & Scholes, 2002) critique Porter's differentiation concept by introducing the possibility of pursuing differentiation while maintaining low cost positioning. Two schools of thought have emerged from this discussion, with one supporting mutual exclusion of the two strategies (Dess & Davis, 1984), while the other advocates simultaneous application of the two strategies (Certo & Peter, 1995; Wright, Kroll, Tu, & Helms, 1991). From this stand point, a question arises whether firms that are inclined to apply one school of thought achieve higher implementation than those that apply the other school of thought.

The goal of every competitive strategy is to achieve sustainable competitive advantage (Coyne, 1986; Stalk & Lachenauer, 2004). This objective is achieved through competitive strategy implementation, which is defined primarily by the strategic advantage of either low cost leadership or differentiation (Porter, 1998a). The transient nature of some competitive advantages over the changing environmental conditions require that strategists deeply understand the competition process and the factors that underlie each advantage in order to attune themselves to changes in such underlying conditions (Christensen, 2001). Such changes, which are at times turbulent and unpredictable, have made competitiveness become a central preoccupation of both advanced and developing countries (Porter, 2003).

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). Recently (February 2010) CBK issued regulations to govern a new agency banking model to be implemented by banks in Kenya hence agency banking is a new phenomenon in the Kenyan banking industry so knowledge in the area is limited. Research in this area is important to give insight on the impact this new phenomenon is bringing to the banking industry and how players in the industry are competing.

A number of research papers have been done on various topics in strategic management in relation to Equity bank (Munga, 2005; Derek, 2010) but no one has explored the issue of competitive strategies employed in implementation of agency banking by Equity Bank limited. Similar studies include Jedidah (2009) who studied competitive strategies adopted by firms in the logistics industry in Kenya Veronica (2009) who explored competitive strategies adopted by multinational banks in Kenya, Gikonyo (2009) who studied competitive strategies adopted by small airlines in East Africa and Derek (2010) who explored strategic responses used by Equity Bank limited to compete in the Kenyan Banking Industry. This research is different from the mentioned studies by focus and scope and no study has been done so far to explore the competitive strategies employed by Equity Bank limited in agency banking in Kenya. This study sought to answer the following question: What competitive strategies has Equity Bank limited employed in agency banking in Kenya?

1.3 Research Objective

The objective of this study was to determine the competitive strategies employed by Equity Bank Limited in agency banking in Kenya

1.4 Value of the Study

Situations arise where the business environment is not conducive to business success, leading to aggressive competition for survival. Under such situations it is imperative that managers and scholars alike have ready access to empirically supported evidence that identifies the competitive strategy that may deliver comparatively superior performance in terms of the level of implementation achieved. This would therefore provide them the opportunity to posture the firm for success. Toward this end, the study seeks to address this need and thereby contribute towards reducing the high failure rate in strategy implementation. This study will be important to the various users who will include government regulators, Equity Bank, other banks, investors and academia. It will be very valuable to regulators like CBK considering the agency banking model is a new phenomenon in the banking industry. Other regulators who may be interested in Equity Bank limited case study include Kenya Bankers Association (KBA) and Capital Markets Authority (CMA).

The study will be useful to investment bankers and investors (existing and potential) as it will give them gainful insight on the Equity Bank limited agency baking business model. It is very important for investors to continuously gather company and industry information for the stocks in which they chose to invest in as it can help investors avoid losses or make gains on their investments. Finally, the research will be beneficial to Equity Bank limited in that it will expose the gaps in its strategy, which if addressed in time will help it to deter competition as well as leverage on its competitive edge.

The study will also make significant contribution to the competitors in the banking industry. as it will provide a lot of insight on the strategies they can use to respond to competition. Finally, the research will add to the existing body of knowledge in this area and stimulate further research on different aspects of competitive strategies in various industries.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature from writers and researchers who have written and/or carried out studies in the same field. The specific areas covered are; concept of strategy, competitive strategies, Porter generic strategies, Ansoff's product / market matrix and agency banking.

2.2 Concept of Strategy

The term strategy derives from the Greek word strategia meaning 'generalship' itself formed from stratos meaning 'army', and ag, meaning to lead. However the concept of strategy did not originate from Greece. Sun Tzu's classic the art of war, written about 500BC, is regarded as the first treatise on strategy (Grant, 2005). (Ansoff & Mc Donnell, 1990) stated that a strategy is a set of decision making rules that guide organizational behavior and sets the general direction in which the firm's position will grow and develop. The essence of formulation of competitive strategies is to relate a firm to its environment and thus the aim is to give direction and purpose, deploy resources in the most effective manner and to co-ordinate decisions made by different levels of the firm (Porter, 1998)

For the leading strategy guru, Michael (Porter, 1996), strategy is about achieving competitive advantage through being different – delivering a unique value added to the customer, having a clear and enactable view of how to position yourself uniquely in your industry. To enact a successful strategy requires that there is fit among a company's activities, that they complement each other, and that they deliver value to the firm and its customers. The essence of formulation of competitive strategies is to relate a firm to its environment and thus the aim is to give direction and purpose, deploy resources in the most effective manner and to co-ordinate decisions made by different levels of the firm (Porter, 1998).

As business environments get more turbulent and less predictable, survival requires that companies perform at a higher level with a broader repertoire of capabilities. Building multiple capabilities and achieving excellence across multiple performance dimensions requires managing dilemmas that cannot be resolved as simple trade offs. A company must be efficient today, while also adapting for tomorrow; it must produce at low cost while innovating; it must deploy the massed resources of large corporation, while showing the entrepreneurial flair of a small start-up; it must achieve higher levels of reliability and consistency, while also being flexible in adapting to change (Grant, 2005). According to (Aosa, 1992), a mismatch between the environment and the organization that is brought about by failure to respond to changes in the environment creates a strategic problem which must be addressed. They must therefore relate effectively with the environment for success by tailoring their strategies to the requirements of its market environment and to the strengths and weaknesses of its resources and capabilities.

2.3 Competitive Strategies

Competitive strategy specifies the distinctive approach which the firm intends to use in order to succeed in each of the strategic business areas. Competitive strategy gives a company an advantage over its rivals in attracting customers and defending against competitive forces (Ansoff, 1985). There are many roots to competitive advantage, but the most basic is to provide buyers with what they perceive to be of superior value a good or service at a low price, a superior service that is worth paying more for, or a best value offering that represents an attractive combination of prices, features, quality, service, and other attributes that buyers find attractive (Thompson & Strickland, 2003).Competitive strategy is thus the search for a favorable competitive position, in an industry, the fundamental arena in which competition occurs.

Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition (Porter, 1998). Firms pursue competitive strategies when they seek to improve or maintain their performance through independent actions in a specific market or industry .There are two major types of competitive business strategies: cost leadership and product differentiation (Porter,1980).Firms pursuing cost leadership strategies attempt to gain advantages by lowering their costs below those of competing firms. Firms pursuing product differentiation strategies attempt to gain advantages by increasing the perceived value of the products or services they provide to customers. Competitive business strategies are important strategic alternatives for many firms, but they are not the only business strategic alternatives (Barney, 1997). Competitive strategy needs to focus on unique activities (Porter, 1996).

Competitive strategies should lead to competitive dominance, which in other words of (Tang & Bauer, 1995) is about sustained leadership and levels of undisputed excellence. They contend that competitive dominance is an attitude that begins with the realization that leadership is no guarantee for long term success, especially in the global market place. Firms also develop competitive strategies to enable them seize strategic initiatives and maintain a competitive edge in the market (Porter,1998).The competitive aim is to do a significantly better job of providing what buyers are looking for, thereby enabling the company to earn a competitive advantage and out compete rivals in the market place.

Competitive strategies provide a frame work for the firm to respond to the various changes within the firms operating environment. Firms also develop competitive strategies that enable them develop strategic initiatives and maintain competitive edge in the market (Grant, 1998). (Ansoff & Mc Donnell, 1990) define competitive strategy as the distinctive approach which a firm uses or intends to use to succeed in the market. In examining the concept of competitive strategies, different authors have done it differently, however major studies in this area have been done by Michael Porter.

2.3.1 Porter Generic Strategies

Michael Porter defines competitive strategy as the art of relating a company to the economic environment within which it exists. (Porter, 1998) states that the goals of a competitive strategy for a business unit in an industry is to find a position the industry where the company can best defend itself against the five forces which are rivalry, threat of substitutes, buyer power, supplier power and the threat of new entry. These five forces constitute the industry structure and it is from this industry analysis that a firm determines its competitive strategy. Porter unveiled four generic competitive strategies that can be viable in the long term business environment. They are cost leadership strategy, differentiation strategy, cost focus strategy and differentiation focus strategy. The differentiation and cost leadership strategies seek competitive advantage in broad ran market or industry segments while in contrast, the differentiation focus and cost focus strategies adopted in a narrow market or industry .

Figure 1: Porter's Generic Strategies

		Competitive Advantage	
		Lower Cost	Differentiation
Competitive Scope	Broad Target	1. Cost Leadership	2. Differentiation
	Narrow Target	3a.Cost Focus	3b.Differentiation Focus

Source: Porter M.E (1988) Generic Strategies. The free press pp.4

A firm producing at the lowest cost in the industry enjoys the best profits. Producing at lower cost is a strategy that can be used by various firms so as to have a significant cost advantage over the competition in the market. This in effect leads to growth in the market share. This strategy is mostly associated with large businesses offering standard products that are clearly different from competitors who may target a broader group of customers. The low cost leader in any market gains competitive advantage from being able to many to produce at the lowest cost. Factories are built and maintained; labor is recruited and trained to deliver the lowest possible costs of production. Cost advantage is the focus. Costs are shaved off every element of the value chain (Porter, 1996). Products tend to be 'no frills.' However, low cost does not always lead to low price. Producers could price at competitive parity, exploiting the benefits of a bigger margin than competitors.

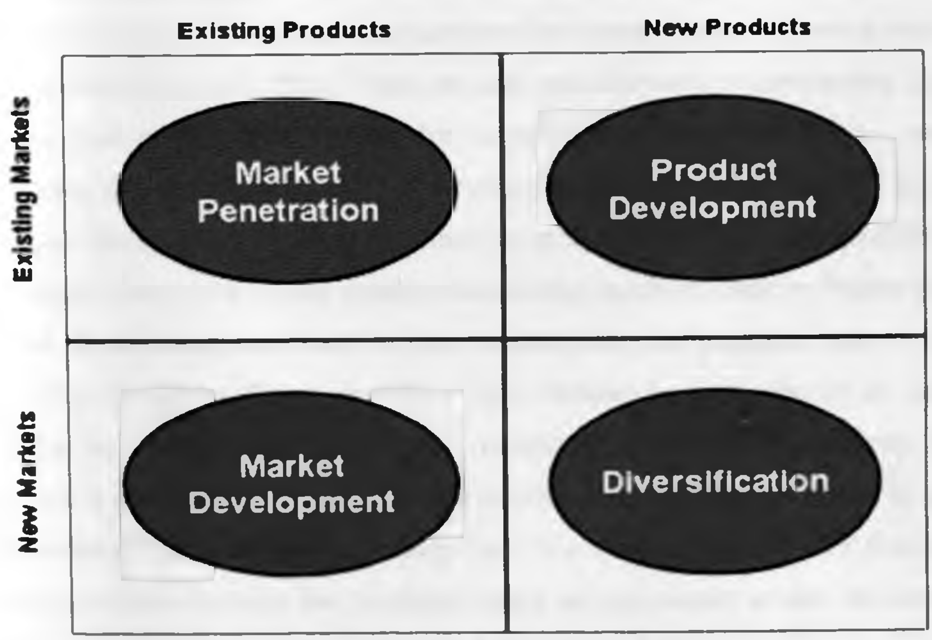
Some organizations, such as Toyota, are very good not only at producing high quality autos at a low price, but have the brand and marketing skills to use a premium pricing policy. A low cost leader's basis for competitive advantage is lower overall costs than competitors. The need to manage cost is nothing new, yet surprising number of organizations struggles to successfully control their operating expenses overtime (Bertone, Clark, West & Groves, 2009). Successful low cost leaders are exceptionally good at finding ways to drive costs out of their business. Differentiated goods and services satisfy the needs of customers through a sustainable competitive advantage. This allows companies to desensitize prices and focus on value that generates a comparatively higher price and a better margin. The benefits of differentiation require producers to segment markets in order to target goods and services at specific segments, generating a higher than average price. For example, British Airways differentiates its service. The differentiating organization will incur additional costs in creating their competitive advantage (Porter, 1996).These costs must be offset by the increase in revenue generated by sales. Costs must be recovered. There is also the chance that any differentiation could be copied by competitors. Therefore there is always an incentive to innovate and continuously improve. Targeting smaller market segments to provide special customer needs is a strategy widely used in the corporate scene. It involves identification of the needs of the customers in the market and designing products that can fit their needs. Companies can pursue differentiation from many angles. (Mibei, 2007), notes that firms may find it profitable to enter an industry and produce a similar but distinctive product.

Lower cost advantages to a section of the market segments with basic services offered to a higher priced market leader is a strategy acceptable in the corporate world. It results to similar products to much higher priced products that can also be acceptable to sufficient customers in the market. A focused strategy based on low cost aims at securing a competitive advantage by serving buyers in the target market niche at a lower price than rival competitors. This strategy has considerable attraction when a firm can lower costs significantly by limiting its customer base to a well defined buyer segment. Focused low cost strategies are fairly common (Porter, 1996). A business aims to differentiate within one or a number of target market segments. The special customer needs of the segment means that there are opportunities to provide products that are clearly different from competitors who may be targeting a broader group of customers. This demands that the customer's different needs and wants be recognized. (Porter, 1980) reiterates that only if a company makes a strong and unwavering commitment to one of the generic competitive strategies does it stand much chance of achieving sustainable competitive advantage that such strategies can deliver if properly executed. Many scholars have questioned this; in particular, (Miller, 1992) questions the notion of being "caught in the middle". He claims that there is a viable middle ground between strategies. Many companies for example, have entered a market as a niche player and gradually expanded. (Akan, 2006) claimed that Porter's model was flawed because differentiation can be a means for firms to achieve low cost. He proposed that a combination of differentiation and low cost might be necessary for firms to achieve a sustainable competitive advantage.

2.3.2 Ansoff's Product / Market Matrix

The Ansoff matrix presents the product and market choices available to an organisation. Herein markets may be defined as customers, and products as items sold to customers (Lynch, 2003). The Ansoff matrix is also referred to as the market/product matrix in some texts. Some texts refer to the market options matrix, which involves examining the options available to the organisation from a broader perspective. The market options matrix is different from Ansoff matrix in the sense that it not only presents the options of launching new products and moving into new markets, but also involves exploration of possibilities of withdrawing from certain markets and moving into unrelated markets (Lynch, 2003). Ansoff matrix is a useful framework for looking at possible strategies to reduce the gap between where the company may be without a change in strategy and where the company aspires to be (Proctor, 1997). The Ansoff Growth matrix is a tool that helps businesses decides their product and market growth strategy. Ansoff's product/market growth matrix suggests that a business' attempts to grow depend on whether it markets new or existing products in new or existing markets.

Figure 2: Ansoffs Product / Market Matrix



Source: QuickMBA, (2007a). http://tagsko.com/porter_vs_ansoff

The output from Ansoff's product/market matrix is a series of suggested growth strategies that set the direction for the business strategy. These growth strategies are market penetration, product development, market development and diversification strategies. Market penetration is a growth strategy where the business focuses on selling existing products into existing markets (Lawrence, et al, 2012). Market penetration seeks to achieve four main objectives: Maintain or increase the market share of current products – this is achieved by a combination of competitive pricing strategies, advertising, sales promotion and perhaps more resources dedicated to personal selling, Secure dominance of growth markets, Restructure a mature market by driving out competitors; this would require a much more aggressive promotional campaign, supported by a pricing strategy designed to make the market unattractive for competitors and Increase usage by existing customers – for example by introducing loyalty schemes. A market penetration marketing strategy is very much about "business as usual". The business is focusing on markets and products it knows well. It is likely to have good information on competitors and on customer needs. It is unlikely, therefore, that this strategy will require much investment in new market research (Ansoff, 1965).

Market development is the name given to a growth strategy where the business seeks to sell its existing products into new markets. A market development strategy means that the company moves beyond its immediate customer base towards attracting new customers for its existing products (Ansoff, 1965). There are many possible ways of approaching this strategy, including: New geographical markets; for example exporting the product to a new country, new product dimensions or packaging: for example new distribution channels and Different pricing policies to attract different customers or create new market segments (Disi, 2008). A more critical view on the market development strategy has been taken by Proctor (1997), who says that the discovery and entry to new markets does not guarantee long- or short-term profitability. He argues that economies of scale obtained in producing for the market or in supplying the market will contribute to profitability. This in effect means that when production is scaled up, unit costs decrease and this is where some of the key to a profitable and effective market development strategy lies. This of course depends on if there are buying customers out there to meet the increased output and one aspect to take into account when considering a market development strategy are barriers to entry.

Product development is the name given to a growth strategy where a business aims to introduce new products into existing markets. This strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing markets. It is argued that this strategy will be most effective if the company's strengths are related to its specific customers rather than to the specific product itself (QuickMBA, 2007a). The reasons for wanting to implement a product development strategy can be to utilize excess production capacity, counter competitive entry, maintain the company's reputation as a product innovator, exploit new technology, and to protect overall market share. (Proctor, 1997) also says that the introduction of new products can have a positive impact on sales growth, but indicate a danger during the initial period of time following the launch of new products. This is because there might have been substantial research, development and launching costs associated with the new product(s), which have to be recouped within a specified period of time.

Diversification is the growth strategy where a business markets new products in new markets. It is an inherently more risky strategy because the business is moving into markets in which it has little or no experience. For a business to adopt a diversification strategy, therefore, it must have a clear idea about what it expects to gain from the strategy and an honest assessment of the risks but with careful selection of the right kind of business considerable improvements in profitability can be achieved. It is important to note that diversification may be into related and unrelated areas. Related diversification may be in the form of backward, forward, and horizontal integration. Since the diversification strategy is deemed as risky, there are many failures rather than success stories (Ansoff, 1965). A conclusion from this might be that a diversification strategy is more suitable for well-established, capital strong companies. However, according to Proctor (1997), there may be some synergy to be gained from moving into related markets. The synergy may be in marketing or even in production. This should give an indication that a diversification strategy might be successful even for smaller businesses with less capital than their competitors, and indeed attractive 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 into related products may be achieved through internal development but more often it is easier and advisable to do so through a process of acquisition and merger or simply by forming a strategic alliance with another producer.

2.3.3 Resource Based View

Resources are defined as stocks of knowledge, physical assets, human capital and other tangible and intangible factors that a business owns or controls which enable a firm to produce efficiently and/or effectively. The resource-based view (RBV) is a way of viewing the firm and in turn of approaching strategy. RBV was popularized by Hamel and Prahalad in their book "Competing for the Future" (1994). Essentially, the view conceptualizes the firm as a bundle of resources. It is these resources, and the way that they are combined, that make firms different from one another and in turn allow a firm to deliver products and services in the market. While it might seem somewhat obvious that firms are different because they are comprised of different resources, this perspective is a significant departure from the long dominant market based view (Five Forces Analysis). In the market-based view, firms are largely seen as being homogeneous, and competition is seen as occurring via positioning in markets. With the market based view, the strategic challenge is seen as identifying attractive markets to compete in - attractive markets being ones with characteristics identified by analysis of Porter's five forces.

What is not asked in the market-based view is whether the market opportunity is one that can be exploited by the firm in question – that is, whether the firm has the resources and competencies to compete in this market. The difference in perspective is highlighted by Theodore Levitt's famous Harvard Business Review article "Marketing Myopia" (1960). In this article, Levitt argues that the problem with many firms is that they define their market too narrowly. The popularity of the resource-based view has grown largely from research conducted by Rumelt (1991). Rumelt's research investigated firm profit differentials within and across industries. He found that there were greater differentials within industries than across industries. This finding implied that firm specific differences must be contributing to these differences. Firm resources are generally quite loosely defined, tending to include everything internal to the firm. Barney (1986) lists all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. as resources.

Barney (1991) has put forward a popular checklist for this. He identified the following key characteristics for a resource to be strategically important: Valuable – There is no point having a resource if it does not deliver value to the firm, Rare – Resources that are owned by a large number of firms cannot confer competitive advantage, as they cannot deliver a unique strategy vis-à-vis competing firms. Inimitable – Resources can only be sources of sustained competitive advantage if firms that do not possess these resources cannot obtain them and Non-substitutable – There must be no strategically equivalent valuable resources that are themselves neither rare nor inimitable. While resources can be purchased, it is generally argued that to achieve strategic advantage from a resource it needs to be developed internally. As "deployment of such [tradable] assets does not entail a sustainable competitive advantage, precisely because they are freely tradable" (Dierickx & Cool, 1989). Internal development of resources, however, can take long periods of time and is often unclear how to proceed. In a sense it is this uncertainty, opaqueness and development duration that adds to the potential sustainability and value of the resource once it is developed.

One particular resource that is being increasingly viewed as important strategically is knowledge. So much so, that a knowledge-based view of the firm is emerging in its own right. While it is important to recognize that firms are different, and have different resources, this is not to say that the market is not also important. The challenge is to identify opportunities in the market that are relevant to the resource base of the firm. Conversely, resources need to fit with their environment to deliver competitive advantage. This could be viewed in a Darwinian sense, in that the firms that have the resources best suited to the market are likely to perform the best. Markets change, however, so this means that firm's resources also need to change over time to continue to be relevant to the marketplace. This is the central premise of an offshoot of the resource-based view, that being the dynamic capabilities perspective (Teece, Pisano, & Shuen, 1997).Where the resource-based view tends to focus on the types of resources and the characteristics of these resources that make them strategically important, the dynamic capability perspective focuses on how these resources need to change over time to maintain their market relevance. The market-based view, resource-based view and dynamic capabilities perspective all focus on different dimensions of strategy and competitive advantage. While some diehards will claim the superiority of one approach over the others, a more pragmatic approach is to recognize that each offers important insights that can lead to better strategy development.

2.4 Agency Banking

In an increasing number of developing countries, branchless banking has been booming in the last few years and it has the potential to provide financial services to low-income households who are not reached by traditional bank networks, especially those living in remote and rural areas. In June 2009, the GSMA (The GSMA is the worldwide mobile communications network, associating around 800 mobile operators and more than 200 companies included in the broader world mobile system: software, internet, media, etc) claimed that almost 400 million people who currently do not have a bank account could benefit from mobile financial transactions as small as a few dozen cents. Early experiences have shown that branchless banking through agents can significantly reduce set-up and delivery costs, offering cash-in/cash-out operations only or a broader range of financial services to customers who usually feel more comfortable banking at their local merchants than at traditional or marble bank branches. At present, a group of major banks is using branchless banking channels to deliver services and reach new clients through retail outlets. However, the users of these financial services are not the poorest segments of the population and the adoption of the agent model has been slower than in other countries like Brazil, which has the largest agent network in the world and has already influenced other Latin American markets (Daniel & Matteo, 2010) Policymakers and regulators have been facing the challenge to reconcile a safe development of branchless banking operations with increased levels of financial access.

According to available data, banks may have billions at their disposal but most of this goes to big corporates and high net worth clients while the majority of Kenyans remain excluded with only 23 per cent holding bank accounts. Indeed, the 2007 survey of 69 districts in Kenya showed that 74 per cent of those that had loans obtained credit from their local shopkeeper, whose main strength is proximity to the customer and the fact that they are normally liquid. The realization made policy makers to brainstorm on how to bring more inclusion in the financial services sector and the agency banking model came to be entertained despite the long-held prejudice that banking was a preserve of big banks with no place for customers wearing gumboots and carrying crumpled notes. Indeed, even globally the notion has persisted with a recently World Bank research paper titled Measuring Financial Access Around the World showing that only 28 per cent of adults in developing countries have bank accounts against 81 per cent in developed countries.

Even in view of the research findings, the Central Bank of Kenya has decided to move cautiously and go only half the mile rather than the full hog in taking banking to the bottom of the pyramid. Bankers interviewed conceded that it was a good start that would lead to developing a learning curve on what the model holds for the sector. A banking agent is a retail or postal outlet contracted by a financial institution or a mobile network operator to process clients' transactions. Rather than a branch teller, it is the owner or an employee of the retail outlet who conducts the transaction and lets clients deposit, withdraw, and transfer funds, pay their bills, inquire about an account balance, or receive government benefits or a direct deposit from their employer. Banking agents can be pharmacies, supermarkets, convenience stores, lottery outlets, post offices, and many more. Globally, these retailers and post offices are increasingly utilized as important distribution channels for financial institutions. The points of service range from post offices in the Outback of Australia where clients from all banks can conduct their transactions, to rural France where the bank Credit Agricole uses corner stores to provide financial services, to small lottery outlets in Brazil at which clients can receive their social payments and access their bank accounts (Wikipedia, 2012).

Banking agents are usually equipped with a combination of point-of-sale (POS)card reader, mobile phone, barcode scanner to scan bills for bill payment transactions, Personal Identification Number identification number (PIN) pads, and sometimes personal computers (PCs) that connect with the bank's server using a personal dial-up or other data connection. Clients that transact at the agent use a magstripe bank card or their mobile phone to access their bank account or e-wallet respectively. Identification of customers is normally done through a PIN, but could also involve biometrics. With regard to the transaction verification, authorization, and settlement platform, banking agents are similar to any other remote bank channel. Local regulation will determine if financial institutions are allowed to work through retail outlets. Regulators generally determine what kind of, if any, financial institutions are permitted to contract banking agents, what products can be offered at the retail outlets, how financial institutions have to handle cash transport, Know Your Customer requirements, consumer protection, and other operational areas.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the method that was used for the study and describes the methodologies, which were adopted when addressing the study objective. It presents a description of how the study was approached and presents the plan of the research: the research design, how data was collected and from whom, and the data analysis technique that was adopted to analyze the data in order to generate the findings of the study.

3.2 Research Design

Research Design is a plan outlining how information is to be gathered for an assessment or evaluation that includes identifying the data gathering method, the instruments to be used, how the instruments will be administrating, and how the information will be organized and analyzed (Lawrence et al, 2012). This research problem was studied through the use of a case study design which is an in-depth investigation of an individual, institution or phenomenon (Mugenda & Mugenda 2003). The primary purpose of a case study is to determine factors and relationships among the factors that have resulted in the behavior under study. This method has successfully been used by (Jackson, 2009) and (Ininda, 2009)

3.3 Data Collection

According to (Kothari, 2004), a population is a well defined or set of people, services, elements, events, group of things or households that are being investigated. This definition ensures that population of interest is homogeneous. The study focused particularly on employees who are directly dealing with the day to day management of Equity Bank limited and specifically those who are involved in formulation and/or implementation of agency banking model. This included senior management at strategic level: the CEO, Director of Operations, Head of agency banking, Strategy Director and Human resources Director. An interview guide with open ended questions was the main instrument of data collection and it was administered through a face to face interview. Another primary data source used was observation during visits to various Equity Bank limited agent outlets. In addition, secondary data was collected from published sources such as: newspapers, Equity bank's marketing brochures, websites, annual financial statements and the financial performance data available at the Nairobi Stock Exchange and media reports.

3.4 Data Analysis

The data collected was qualitative in nature, intent on answering the 'what' and 'how' questions. Qualitative research is an interpretive and subjective exercise and the researcher is intimately involved in the process, not aloof from it (Pope & Mays, 2006). Data was analyzed using contextual analysis methods and the results were tabulated for ease of comparison and interpretation of data. The data was analyzed in a systematic way so that it could come up with useful conclusions and recommendations on competitive strategies. The researcher obtained detailed information about the study and established patterns, trends and relationships from the information gathered.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

The objective of the study was to determine the competitive strategies employed by Equity Bank Limited in agency banking in Kenya. This chapter presents data analysis, results and discussions with regard to the objective of the study. The respondents comprised of Head of agency banking, Admin- Head of agency & Acquiring and Relationship Manager – Agency Distribution. In total the researcher interviewed 3 respondents and this corresponds to 75% which was considered adequate for data analysis by the researcher.

4.2 Number of Respondents

The questionnaire was sent to the CEO, Director of Operations, Head of agency banking, Strategy Director and Human resources Director offices at Equity Bank. However, only the Head of Agency banking assisted by Admin- Head of agency & Acquiring and Relationship Manager – Agency Distribution agreed to a face to face interview with the rest of the respondents referring me to his offices for information. Information from the face to face interview was supplemented with secondary data (equity bank's website, newsletters, publications) and various media coverage's especially interviews with the Chief Executive by various media houses both in print and audio/visual.

4.3 General Information

This section generally covered the general information on the bank in the study. The specific information covered includes number of employees in the bank and in agency banking, number of agents and profitability of the bank.

4.3.1 Number of Staff

This section was aimed at establishing the size of the firm's payroll. The researcher found that the bank had 2,418 employees as at December 2007 and this has so far increased to 6,986 by June 2012. The researcher also found out that by the time of data collection the bank had 219 staff under the agency department and undisclosed number indirectly supporting the agency business at the bank. The bank's payroll expenditure has risen from Kshs 289 Million in 2004 to Kshs 3.89 Billion in June 2012; this is according to the information extracted from its financial statements of June 2012. Table 1 shows the growth in number of staff since 2007 to June 2012.

Table 1: Growth in Number of Staff 2007 to June 2012

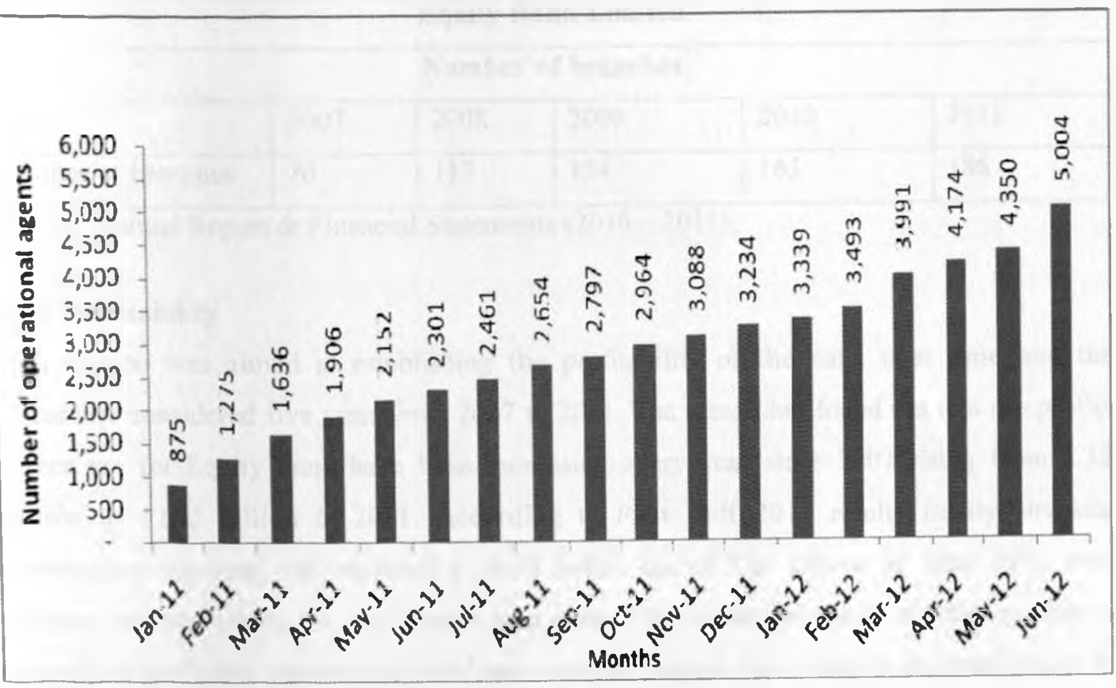
Equity Bank Limited Number of staff						
Year	2007	2008	2009	2010	2011	June 2012
Number of Staff	2,418	4,386	5,093	5,563	6,243	6,986

Source: Equity Investor presentation – First Half 2012 results

4.3.2 Number of Equity Agents in Kenya

This section was aimed at establishing the current number of agents and rate of growth since its start of agency banking. The Bank started the agency model in 2011 to leverage on third party infrastructure for cash transactions and offer other products. The initiative has proved extremely successful and has seen the number of agents increase from just 875 at the beginning of the year 2011 to 5,004 agents by June 2012 being 472% growth. Agency banking now contributes approximately 25% of all cash transactions in the bank. As shown in Figure 3, the number of operational agents has been increasing month to month growing from 875 agents in January 2011 to 5,004 agents by June 2012.

Figure 3: Growth in Number of Operational Agents



Source: Equity Investor presentation – First Half 2012 results

4.3.3 Number of Branches

This section focused on finding out the size of the bank in terms of branch network and the future strategy in relation to branches and agents. The researcher found out that Equity bank had 195 branches in Kenya, Uganda, Tanzania, Southern Sudan and Rwanda as at June 2012 with Kenya having the bulk of the branches with a total of 146 as at the same time. According to the research information Equity bank is supplementing its branch network with alternative channels like Visa branded ATM's, Points of sale at various leading retail outlets where customers can shop and withdrawal cash, internet and mobile banking channels and Equity agents. The researcher found out that the bank is has opened new branches in 2012 like Karen, Lavington, Yaya centre and Ridgeways branches with plans to open a few more in strategic locations. However, the bank's strategy is to have branches serve SME and corporate customers and have most of the retail customers which forms the bulk being served by the banks agents. The researcher found that the bank plans to recruit 10,000 agents by end of 2012 and to start recruiting at least five sub agents/cash merchants per agents to work under agents and earn commissions through the agents. This model is already working with safaricom's Mpesa brand.

Table 2: Number of Branches 2007 to 2011

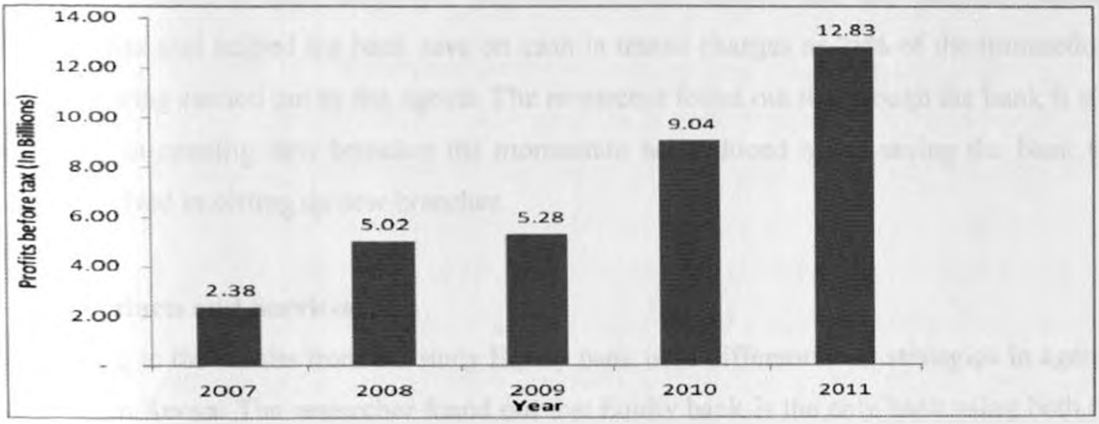
Equity Bank Limited					
Number of branches					
Year	2007	2008	2009	2010	2011
Number of branches	70	117	154	163	186

Source: Annual Report & Financial Statements (2010 – 2011)

4.3.4 Profitability

This section was aimed at establishing the profitability of the bank over time and the researcher considered five years from 2007 to 2011. The researcher found out that the profits before tax for Equity bank have been increasing every year since 2007 rising from 2.38 Billion to 12.83 billion in 2011. According to First Half 2012 results Equity Investor presentation the bank had recorded a profit before tax of 7.62 billion by June 2012 with expected to increase as the year comes to a close. The researcher found out that agency is currently a profitable venture but could not establish exactly how much it has contributed to the profitability figure. Figure 4 shows the profits before tax growth over five years. the figure shows that the profits almost stagnated in 2008 and 2009 and the reason given to the researcher was that 2008 and 2009 was characterized by the economy still recovering from the ravages of post election violence, global economic crisis and prolonged drought which had started in 2008. Post election violence negatively affected agriculture which is the mainstay of the majority of Kenyans.

Figure 4: Profits Before Tax (2007 – 2011)



Source: Research data

4.4 Competitive strategies

The researcher found out that Equity bank employed combination of various competitive strategies in agency banking in Kenya. These competitive strategies are described as follows:

4.4.1 Pricing Strategies

The study found out that Equity bank employs cost leadership strategies in agency banking in Kenya. Cash withdrawals at the Equity agent outlets of an amount below or equal to Kshs. 2,500 are charged at Kshs.25 which is below the cost of withdrawals at the ATM machine charged at Kshs.30 and that at the branch counter charged at ksh.50. Cash deposits are not charged to the customers but the bank pays the agent an amounting ranging from Kshs. 10 to Kshs.30. The researcher found out that 85% of all transaction done at the agent outlets range between Kshs.100 and Kshs. 2,500 hence forming the bulk of all transactions. The bank has strategically priced the low value transactions at the agent outlets cheaper than the branches and ATM machines to encourage the retail customers to served at the agent outlets and clear the banking hall for the SME and corporate customers. Other cost leadership strategies employed by the bank are having the agents meet the cost of setting up the agency business like purchase of the phone to transact agency business which costs an average of Kshs. 7,200, POS machine which costs Kshs. 10,000, licenses from relevant council and municipal authorities, branding in the banks colors at a cost of Kshs. 35 per square meter and insuring through Equity Insurance agency with costs varying depending on stock, assets and cash held at individual agent premises. The researcher also found out that the agents are required to invest the cash to be used to carry out transactions with minimum investment varying from agent to agent and location to location. In addition the study found out that the agents recruit the staff to serve at their shops and take care of their salaries and any benefits. Agency banking has also helped the bank save on cash in transit charges as 25% of the transactions are now being carried out by the agents. The researcher found out that though the bank is still investing in opening new branches the momentum has reduced hence saving the bank the costs involved in setting up new branches.

4.4.2 Products and Services

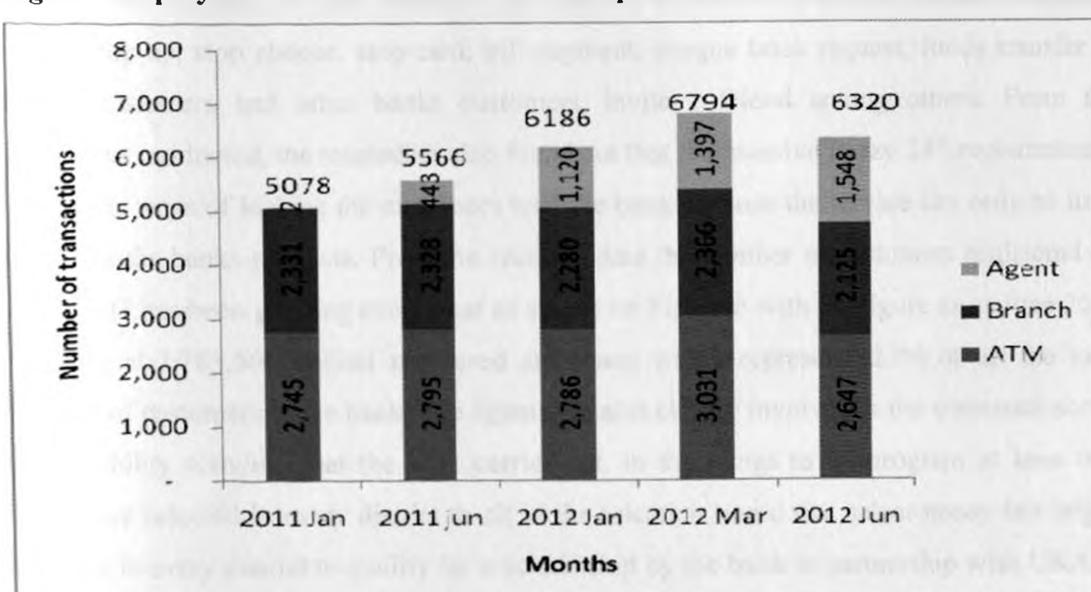
According to the results from the study Equity bank used differentiation strategies in agency banking in Kenya. The researcher found out that Equity bank is the only bank using both the phone and POS machine to offer banking services through the agents with other banks who have rolled out agency banking just using either of the two. The researcher also found out that the bank was offering unique products that were not being offered by competitors like Orange money account which links orange subscribers to Equity bank accounts enabling the customers have access to their funds through orange shops, Equity agents and Equity branches. This account enables the customers to have unlimited balances in their phones because the money sits in a bank account which does not have limitations on the much one can hold at every given time unlike the products direct competitor Mpesa whose maximum balance is Kshs. 100,000. Customers with existing Equity accounts can link them to orange money and they are not required to open a new account.

Mkesho account is also another unique product offered by Equity bank in conjunction with Safaricom. this account enables Mpesa customers to be able to transfer funds from Mpesa account to Mkesho account at Equity and vice versa. Customers interested in this service have to open new Mkesho accounts and cannot link existing Equity accounts to Mpesa. Equity bank agents are also able to activate dormant accounts, open new Equity accounts on real time basis using a Nokia 2730 phone. The customer completes the applicable form and the agent confirm details are correct and he or she takes the form two photos, the first one with the original customer identity card facing up and the other with the identity card facing down ensuring all the details on the form are captured clearly in the photo. The agent also takes the customer a passport photo and sends the data through the phone to Equity bank who validates the data and proceeds to open account, link to mobile banking, activate accounts as per customer request. The customer receives an SMS with the account number or PIN as relevant.

4.4.3 Distribution

The researcher found out that Equity bank uses various market development strategies in agency banking including recruiting agents in all parts of the country with 5,004 agents as at June 2012 and targeting to increase the number to 10,000 agents by end of December 2012. According to the results, the bank intends to have an agent after every 100 meters in every town and shopping centre in Kenya to efficiently and effectively serve the unbanked and under banked Kenyans. According to the research data the agency business is currently contributing approximately 25% of all transactions carried out by the bank in Kenya, with this expected to grow as customers gain confidence and trust in using agent for their transactions. Figure 5; show the contribution in terms of transactions by Equity banks' ATMs, branches and Agents per month since January 2011 to June 2012. The results show that the transactions at the agent outlets have been increasing while that at the ATM's and branches had stagnated, reduced or increased at a very low rate.

Figure 5: Equity bank's number of transactions per month, '000



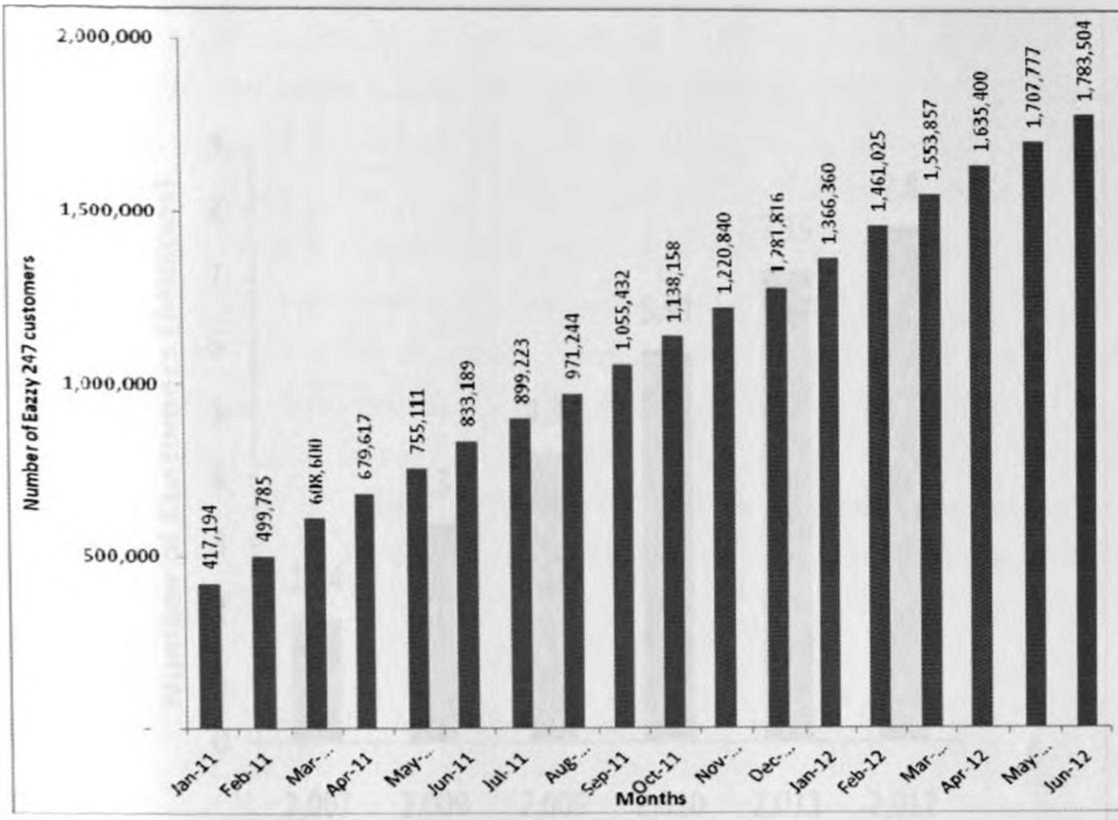
Source: Equity Investor presentation – First Half 2012 results

4.4.4 Market penetration strategies

According to the results, Equity bank also uses market penetration strategies in agency banking in Kenya. Most of the products and services offered at the agent outlets are the same ones offered at the branches. These include Equity accounts, mobile banking service called Eazzy 247 services, bill payment service, dormant accounts activations, opening of Mkesho and orange money accounts. The bank has ensured that the agents are branded with the same colors used on the bank branches to ensure uniformity and maintain the brand image which is already known in the market. The researcher also found out that the staff working at the agent outlets are thoroughly and continuously trained to ensure there is uniformity in service offered at the agent locations and at the branch. Each staff in all the branches is allocated an agent who he or she is supposed to manage, mentor and monitor to ensure service delivery is at par with that of the bank's branches. The agents are trained especially on strategic direction of the bank; Vision, mission, core values, purpose and culture and other bank products like loans, insurance, custodial services and general bank operations to ensure they are at par with the bank staff and are knowledgeable just like the bank staff.

The researcher found out that since January 2011 the bank embarked on an aggressive drive to register existing and potential customers on their mobile banking service called Eazzy 247. This was to enable customers be able to transact at the agent outlets as well as having access to their bank account on their phones to get specific services like account balance, inquiry, airtime top up, stop cheque, stop card, bill payment, cheque book request, funds transfer to equity customers and other banks customers, invite a friend among others. From the interviews conducted, the researcher also found out that the massive Eazzy 247 registration is one of the ways of locking the customers with the bank because the service can only be used to access the banks products. From the research data the number of customers registered on Eazzy 247 has been growing every year as shown on Figure 6 with the figure as at June 2012 standing at 1,783,504 million registered customers which represents 23% of all the total number of customers in the bank. The agents are also closely involved in the corporate social responsibility activities that the bank carries out. In the wings to fly program at least two agents are selected in every district to sit in the selection board that select needy but bright students in every district to qualify for a scholarship by the bank in partnership with UKAid, USaid and Mastercard foundation. All agents are also usually invited for the program launch which is done every year before the selected children start secondary school.

Figure 6: Growth in number of Eazzy 247 customers

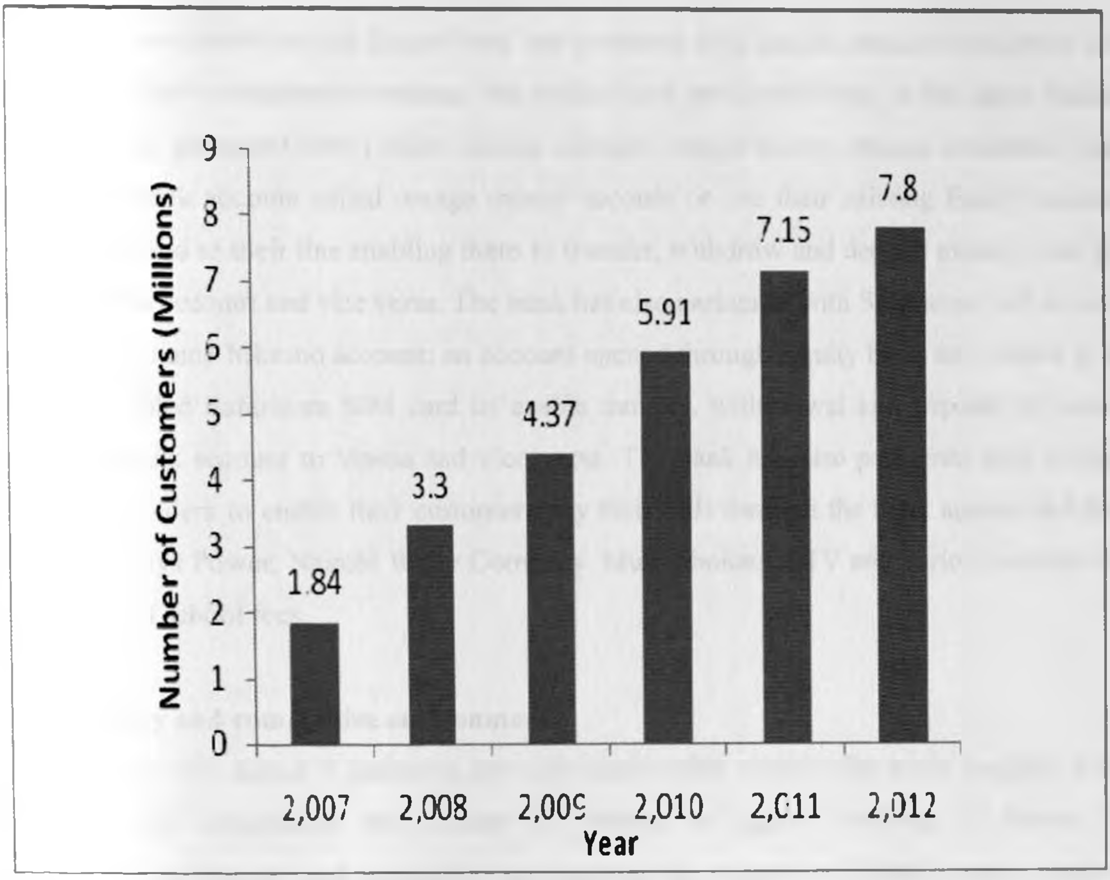


Source: Equity Investor presentation – First Half 2012 results

4.4.5 Product development strategies

The researcher found out that Equity bank mission is to live up to its purpose statement through which the bank states that it exists to transform the lives and livelihoods of people socially and economically by availing them modern, inclusive financial services that maximize their opportunities. From the research results, the bank has grown from a customer base of 27,000 in 1993, to 7.8 million accounts currently accounting for over 50 percent of all bank accounts in Kenya as shown in Figure 7 which shows the growth since 2007 to June 2012. The research found out that, Equity Bank is the largest bank by customer base in Africa with a focus on providing affordable, accessible and relevant products and services at the bottom of the pyramid. The bank is offering this clientele new products like bill payments, third party payments, payments through POS machines and Phone all at the agent locations. The bank therefore is leveraging on existing customers/market and using agents to meet the unmet needs of this clientele. The researcher found out that the bank is planning to launch more products to be offered through the agents like loan products, new savings accounts, and insurance products targeting the bottom of the pyramid.

Figure 7: Growth in customer numbers



Source: Equity Investor Presentation first half 2012 results

4.4.6 Resource based view strategies

According to the results, the agents are recruited and managed by branches. There were 146 branches in Kenya as at June 2012. The bank has taken advantage of existing resources at the branches like staff, technology and customers which have in return ensured that agents are vetted and managed closely. As at June 2012, there were 219 staff handling agents directly, the agency supervisors, champions and some agency relationship managers are based at the branches and their main role is to recruit, train and manage the agents, the rest of the team sits at Equity centre head office to provide support to the branch team. The researcher also found out that the bank engages the agents during their CSR activities like recruitment of needy but bright children during their wings to fly scholarship program.

4.4.7 Strategic alliance strategies

The researcher found out that Equity bank has partnered with various telecommunication and service delivery companies to enhance the product and service offerings at the agent outlets. The bank has partnered with Telkom Kenya, through Orange money, orange subscriber open an Equity bank account called orange money account or use their existing Equity account which is linked to their line enabling them to transfer, withdraw and deposit money from the phone to the account and vice versa. The bank has also partnered with Safaricom Ltd through the product name Mkesho account; an account opened through Equity bank and linked to an Mpesa enabled Safaricom SIM card to enable transfer, withdrawal and deposit of money from the bank account to Mpesa and vice versa. The bank has also partnered with various service providers to enable their customers pay their bills through the bank agents and they include Kenya Power, Nairobi Water Company, Multi choice/DSTV and various schools for payments of school fees.

4.5 Industry and competitive environment

This section was aimed at gathering any information that would offer more insight on the industry and competitive environment in relation to agency banking in Kenya. In understanding industry and competitive environment the researcher looked at entry barriers, bargaining power of customers, Threat of substitutes, bargaining power of suppliers and Industry Rivalry.

4.5.1 Entry barriers

The researcher found out that all banks are allowed to engage agents to offer specific banking services as long as they meet the CBK guideline on agent banking and are approved by the same banking regulator. However, huge expenditure on development of IT systems to support agency business, agent training and management costs and bank branch network could act as barriers to entry for many interested banks and players. Equity bank has leveraged on its branch network, existing customers, robust IT systems, brand name and financial strength in running agency banking. As at the time of data collection only KCB, Cooperative bank, Chase bank, Post Bank and Equity bank were offering specific banking services through agents out of the existing 46 banks in Kenya. However, the researcher also found out that agency banking is in direct competition with other money transfer services especially those offered by telecommunication companies like Safaricom - Mpesa, Airtel – Airtel money, YU-

YU cash and Orange – Orange money. The researcher found out that Safaricom has created barriers to entry for Equity bank by advising all their Mpesa agents who are offering Equity agent services and those who intend to offer the services to close the Equity agency business or risk having their operating Mpesa lines switched. The researcher visited the Equity agents who were also offering Mpesa services and found out that most of them had their Mpesa lines disconnected and considering stopping operating Equity agency or looking for another premises to operate the Mpesa business depending on which of the two lines of business was giving the agent more returns at the time. According to en.wikipedia.org, Mpesa has spread quickly, and has become the most successful mobile phone-based financial service in the developing world, by 2012, a stock of about 17 million Mpesa accounts had been registered in Kenya. Safaricom is therefore also using its Mpesa subscriber numbers that give it the market leader position to create barrier for banks like Equity bank getting into the agent based money transfer business.

4.5.2 Bargaining power of customer

This study was also aimed at finding out if there were organizations or banks that create demand in the agency banking industry. The bargaining power of buyers is greater when; there are few dominant buyers and many sellers in the industry, products are standardized, buyers threaten to integrate backward into the industry, Suppliers do not threaten to integrate forward into the buyer's industry or the industry is not a key supplying group for buyers. The researcher found out that the bargaining power of customers in the industry had very minimal bargaining power and were mostly price takers. There are currently few players in the industry with only 4 telecommunications companies; Safaricom, Airtel, Yu and Orange and less that 10 banks that are offering agency banking services. This makes it difficult for customers have any power in negotiation. The researcher found out that the charges for transactions by the industry players were within the same range with most players offering a tiered tariff guide meaning the bigger the amount you transact the more you pay as commission.

4.5.3 Threat of substitute

This study was also aimed at finding the switching costs, buyers' willingness to substitute, the relative price and performance of substitutes. According to the Fin Access survey June 2009, only 23% of the Kenya's population aged above 18 years are banked, that means 73% is unbanked. The researcher found out that customer's willingness to substitute depended on the network or bank that the customer's clients, friends, suppliers or relatives were on. An approximated 99.9% of customers are not willing to abandon Mpesa completely to adopt the use of Equity agents but most of them are willing to open new Equity accounts or use their existing accounts at the Equity agents. The researcher found out that Equity bank was relying on existing customers to get services at the agent outlets but also recruiting new customers by opening accounts at the agent outlets to ensure they maximize the opportunity of banking the unbanked and under banked population. The researcher confirmed that agent had opened an undisclosed number of accounts for people who had never opened a bank account. The researcher can therefore conclude that bargaining power of customers is moderate.

4.5.4 Bargaining power of supplier

This section was aimed at finding out whether the suppliers in agency banking or money transfer through use of agents had strong bargaining power. The researcher found out that the suppliers in this industry mainly included suppliers of marketing materials and business outlets willing to become agents for the banks or telecommunications companies. The researcher found out that the suppliers had negligible bargaining power and were at the mercy of the banks and telecommunications companies. Most businesses are interested in acting as agents to offer money transfer or banking services on behalf of the principal but only few are approved and contracted. The suppliers of marketing and branding materials like posters, stationery are also at the mercy of the banks and telecommunications companies. Equity bank's strategy in agent recruitment is to target the most financially stable, reputable and strategically located outlets with a good image in every small or big shopping centre first considering qualifying existing bank customers and where they are not available then recruiting others who meet the desired criteria.

ıtry Rivalry

also aimed at establishing the intensity of industry rivalry in regards to agency 'hen competitors are pursuing aggressive growth strategies, rivalry is more intense barriers to leaving an industry are high then competitors tend to exhibit greater e researcher found out that rivalry in agency banking is intense with the market aricom trying to slow down Equity bank which it consider as its main competitor trategies to block the bank form appointing its Mpesa agents as the banks agents. ık on the other hand is threatening to end contracts with agents who have accepted ecome agents of other banks despite the fact that CBK allows agents to become as much as 7 banks. The researcher found out that the industry rivalry is bound to ıs more and more banks get into agency banking. Opportunities exist to bank the 73% adult population hence it's expected that more players will get into agency ndustry. The researcher also found out that the investment in agency banking run reds of millions because players have to invest in technology, systems, personnel, ng hence making it difficult for players to exit the industry at will. This has made apply any trick on the book to ensure their business succeeds in the short term and

'T analysis

tion was aimed at gathering any information that would offer insight in ıding the strengths and weaknesses possessed by Equity bank in relation to agency in Kenya and also get to understand the threats and opportunities that the bank faces ırket in relation to agency banking.

engths

tion was aimed at determining the strengths possessed by Equity bank in relation to banking in Kenya. The researcher found that the bank was leveraging on its 7.8 as at June 2012 existing customers to grow the agency business. The bank is ging most of the retail customers to use the agents for their main banking services nclude cash deposits, cash withdrawals, bill payments, balance inquiries and other offered at the agent outlets. The bank is also relying on its huge branch network of nches throughout the country as at June 2012 to recruit agents, train them and manage a daily basis and also collect information and closely monitor competition. The bank is also using the large number of staff currently at 6,986 as at June 2012 as a strength. The researcher found out that each staff in the 146 branches is allocated an agent or more who they manage, mentor and closely monitor and act as the agent's relationship manager. The researcher was able to confirm that no other bank currently carrying out agency banking had each staff allocated to an agent but all of them had a relationship manager managing agents in a region.

4.6.2 Weaknesses

This section was aimed at determining the weaknesses possessed by Equity bank in relation to agency banking in Kenya. The researcher found out that the bank relied heavily on the telecommunications companies to facilitate its transactions and activities at the agent outlets. Transactions and other services through the phone or Point of sale machine are routed to the banks system through GPRS or internet connectivity facilitated through a SIM card, therefore the bank relies heavily on telecommunication companies to provide reliable and consistent connectivity. The researcher also found out that the systems connecting agency banking and the bank go off or are down at least once or twice in a month especially during the end month period due to the high volumes of transactions going through the system at this time. The researcher was however informed that the bank was in the process of expanding the capacity of its systems to accommodate these volumes and reduce or completely eliminate down times. The researcher found out that Equity bank had not been successful in having the agents maintain the necessary float to offer the transactional based services, a number of agents were chasing away customers due to lack of float.

4.6.3 Threats

This section was aimed at determining the threats that face Equity bank in relation to Agency banking in Kenya. The researcher found out that Equity bank was at the time of the data collection facing a huge threat from Safaricom Mpesa line of business. Safaricom had informed its entire population of agents carrying out Equity agency business to de-brand the Equity colors and stop offering the banks services or risk disconnection on their Mpesa trading lines. The researcher confirmed with some agents offering both Mpesa and Equity bank agent services and found out that some had already been switched off. The researcher also found out that CBK allows bank agents to become agents of as many as seven banks hence the threat of Equity bank setting up and training agents only for competing banks to contract the same agents to offer services on their behalf. The researcher confirmed that Kenya Commercial bank and cooperative bank were already targeting and had contracted some of Equity bank's agents as their agents. Through the face to face interviews the researcher found that Equity bank was facing the risk of internet hackers and fraudsters who are targeting to defraud customers and agents through hacking the agency systems. The researcher confirmed that the bank and agents had already lost some undisclosed sums of money through these schemes. The researcher also found out that the bank was considering the political environment as a threat at the time of the research with the year being an election year; the agent might want to divest from agency banking and have the money in cash awaiting the outcome of the elections.

4.6.4 Opportunities

This section was aimed at determining the opportunities available to Equity bank in relation to Agency banking in Kenya. The researcher found out that the bank had the opportunity of taking advantage of the 73% percent un banked Kenyans as it was the only bank by the time of data collection which was opening accounts instantly through the agents. The economy of the country is growing with some of contributor industries being tourism, construction, telecommunications, agriculture and the small and micro enterprise businesses, this provides opportunities for agency banking for Equity bank to grow and thrive. The researcher found out that the bank is laying foundation to have affordable, accessible and convenient services offered through agency banking closely aligning this model to the country's vision 2030 which advocates for financial inclusion of every adult Kenyan.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the research findings, discusses the findings and draws conclusions. The research had one objective which was to determine the competitive strategies employed by Equity Bank Limited in agency banking in Kenya. The method of data collection was the use of interview guides, interview appointments were done with Head of Agency banking assisted by Admin- Head of agency & Acquiring and Relationship Manager – Agency Distribution. The findings were presented in tables and clear discussion on each of the findings.

5.2 Summary

Equity bank was the first bank to start agency banking after the model was approved by central bank of Kenya. The objective of this study was to determine the competitive strategies employed by Equity bank limited in agency banking in Kenya. Equity bank limited has a strategy in place for agency banking and the bank intends to assume and maintain the market leader position in. There are a number of strategies the bank has employed in agency banking in Kenya which include; cost leadership, differentiation, market penetration, market development, product development, resource based and strategic alliances strategies. The study reveals that the bank has clear short term, medium term and long term competitive strategies for its agency banking business in Kenya. This is very encouraging because the essence of competitive strategies is to help organizations to grow and create sustainable competitive advantage.

One of the strategies the bank has been using in agency banking is competitive pricing; the bank has priced transactions of Kshs. 2,500 and below at Kshs.25 for withdrawals and Nil for deposits, this is cheaper than the price charged by all the competitors and the bank gets to benefits by getting huge volumes noting that 85% of all transactions at the agent outlets are within that range. Other strategies include extensive geographical network having an agent in every shopping centre in the whole country with the number as at June 2012 standing at 5,004 agents and with the intention of recruiting an agent after every 100 meters in every shopping with a target of 10,000 by end of 2012, this strategy is to ensure availability of agency services to provide convenience to the customers. Equity bank is the second market leader in number of agents and transaction after Safaricom Mpesa which have over 20,000 agents and sub agents. The bank has invested hugely in technology and systems supporting agency banking ensuring transaction are fast and real time and it is still expanding the technological capacity as the agent numbers and transaction increase. Equity bank is the only bank opening accounts on a real time basis through the phone solution with other banks using agents to collect documents for account opening for further forwarding to branches to open accounts. The bank has put great emphasis on agent branding to ensure the outlets portray the same brand as that of the bank which currently has a very strong brand and is considered a super brand. The bank has a panel of contractors who are contracted to brand all the agent outlets with the Equity colors.

The bank has put a lot of emphasis on agent training and management by designating a strong team to recruit, train and manage the agents and also by allocating an agent or more to every staff in the branches to manage and mentor them by visiting them at least on a weekly basis. Equity bank has already broken even by an undisclosed amount in agency banking and also most agent have broken even with some earning commissions of as much as four hundred thousand n per month. The bank's main strategy with agency banking is to push the retail customers who form approximately 90% of the bank customers to the agent outlets so as to leave the branches to serve the SME and corporate customers. The bank is in the process of rolling out a strategy for the SME and corporate customers which will emphasize more on aggressive recruitment and relationship management for these customers. This makes agency banking a key driver for the bank to take up the retail customers and decongest the banking halls to attract the SME and corporate customers. Equity bank is known for long queues which make the bank not attract many customers from the SME and corporate sector as they value quick service.

Equity bank has strengths like the extensive branch network and high number of existing customers standing at 7.8 million as at June 2012 who are contributing to the success of the agency banking model for the bank. The main weakness for the bank is the heavy reliance on telecommunication companies for all activities at the agent outlets. One of the main threat for the bank is the inhibiting strategies being applied by Safaricom Mpesa prohibiting their agents to become Equity bank's agents. The outright opportunity lies in the high number of unbanked Kenyan adult population currently estimated to be 73%.

5.3 Conclusion

This study concludes that the competitive strategies employed by Equity Bank Limited in agency banking in Kenya are strategic alliances with Telecommunication companies like Safaricom and orange and service delivery companies like Nairobi Water & Sewerage Company and Kenya Power, resource based view strategies that is recruiting and managing agents through branches, cost leadership strategies like having agents meet set up and operational costs, aligning products with customer needs and the environment in which they are being offered to ensure customers can identify themselves with the same, Customer Relation Management (CRM), carrying out regular customer satisfaction surveys, introduction of new products based on customer needs like the Mkesho and Orange money accounts, re-launching and revamping of existing products to make them more competitive like mobile banking (Eazzy 247) where the banking increased the services accessible, having at least one agent offer agency banking services at ASK (agricultural Show of Kenya) exhibitions across the country, training agents to offer excellent customer service, provision of products through agents to suit target markets through differentiation and branding of products which achieves customer satisfaction, media advertisement in TV, radio, road shows and newspapers and population dynamics. Investing in technology that is robust and able to link the bank with the agents to ensure transactions and services are real time and also ensure cases of system downtimes are reduced or eliminated completely. The bank has a 24 hour contact center that offers support and assistance to customers and agents as and when needed.

5.4 Limitation of the study

The respondents were not willing to share performance figures forcing the researcher to resort to secondary data whose authenticity may be questioned, as it may be have been reported out of context or produced to protect the image of the bank and please interested stakeholders. The competitive strategies that had been used by the bank in agency banking were so diverse that the research had to limit the scope due to limitations of resources. Some of the respondents like the CEO, Director of Operations, Strategy Director and Human resources Director were not willing to respond with all of them referring the researcher to the Head of agency banking hence the researcher depended on the interviews with the three manager in agency department and secondary data to make conclusions and recommendations.

5.5 Recommendations for further research

This study recommends that adoption of competitive strategies in agency banking would be highly recommended. Equity bank has increased the number of agents to 5,004 in less than two years and managed to break even and make some undisclosed profits in the agency banking business. Clearly notable competitive strategies noted by the researcher during the face to face interview were cost leadership strategies, differentiation strategies, market development strategies, market penetration strategies, product development strategies, resource based view strategies and strategic alliance strategies. The strategies have given equity bank notable success and growth in the agency banking business. In applying competitive strategies in agency banking for the rest of the banking sector, the researcher recommends that each player take into consideration its strengths and available opportunities to maximize on them and weaknesses and threats o go around them.

Competition from the telecommunication companies like Safaricom to agency banking cannot be ignored and should be considered strongly when any player is coming up with competitive strategies in agency banking. This study can be replicated across the industry including the telecommunication companies engaging in money transfer business which came out in the study as a direct competitor. Further research should also be carried out to determine the relationship between branch network of a bank and its success in agency banking; this is because the branch network of Equity bank has helped greatly in giving the bank growth and success in the agency banking business.

Agency banking is a very new model in the banking industry the regulator which in this case is CBK should keep a close eye to ensure laid out guidelines are being observed to ensure fair play amongst players and also to continuously improve the model. If the recorded growth in Equity bank's agency banking business is anything to go by there exists great potential in agency banking business and many bank should get into the business to ensure they take advantage of the 73% unbanked adult Kenyans and the growing economy.

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APPENDIX

A. Letter of Introduction

UNIVERSITY OF NAIROBI

MBA PROGRAMME

TELEPHONE: 4184160/5 EXT. 208 P.O. BOX 30197

TELEGRAMS: "VARSITY", NAIROBI NAIROBI, KENYA

TELEX: 22095 VARSITY

August 20, 2012

Equity Bank Limited
Equity Centre
Nairobi

Attention: ....

Dear Sir,

INTRODUCTION-KIMATHI M. BETH

The above mentioned is a student of university of Nairobi, pursuing a Masters of Business Administration degree. In partial fulfillment of the requirements for this degree, she is required to carry out a management research project on the real problems in Kenya. Her area of study is a case study on Equity Bank competitive strategies employed in implementing agency banking model.

I kindly request you to provide the required information to the best of your knowledge by filling out the attached interview guide. The information is strictly for academic purposes and will be treated in the strictest confidence.

A copy of the research project will be made available to you on request. Your kind assistance will be highly appreciated.

Yours faithfully,

Kimathi M. Beth
RESEARCHER

Dr. Gakuru Wahome
SUPERVISOR

APPENDIX

B: Interview Guide

This questionnaire is meant to gather information that will be used in writing up the project entitled **"COMPETITIVE STRATEGIES EMPLOYED BY EQUITY BANK LIMITEDIN IMPLEMENTING AGENCY BANKING MODEL"**

Section A: Bank background

1. What is your position in the bank?

2. How many employees has your bank employed to handle agency banking business?

3. How many agents does the bank have to date?

4. When did you launch agency banking business?

5. How many branches does your bank have?

6. In how many countries have you rolled out the agency banking business?

7. What was the main reason for rolling out the agency banking business?

8. Is the agency banking business making profits?

Section B: Competitive Strategies

9. Does the bank have a strategy on agency banking business?
    - i. Yes ( )
    - ii. No ( )
10. How has geographical coverage by the bank assisted to compete?

11. What is your target market in agency banking business?

12. How has the range of products & services offered assisted in gaining competitive advantage?

13. How has your financial strength assisted you to compete through agency banking?

14. What changes have you made on your organizational structure to gain competitive advantage?

15. What strategies have you put in place to recruit competent, motivated and aggressive agents?

16. How have you used information technology to build competitive advantage?

17. How have you used your corporate image as a selling point in agency banking?

18. How do you ensure there is consistency in the service offered at the branch and at the agent locations?

19. What impact has agency banking had on the number of customers that are served at the branches?

20. What strategies have you employed to convince customers to get banking services at the agent locations?

21. How has financial performance of the bank assisted to compete in agency banking?

22. What strategies have you put in place to build a competent and motivated workforce to implement agency banking?

23. What strategies have you employed to ensure agency administration costs are manageable?

24. What strategies have you employed to collect feedback from customers served by the agents?

25. How instrumental was your market research or business development unit in your organization in agency banking?

26. How have the agency banking guidelines developed by CBK assisted in formulation and implementation of your competitive strategies?

27. What do you consider your five most important strategies that have enabled you gain competitive advantage over your competitors in agency banking?

a. –
b. –
c. –
d. –
e. -

28. How instrumental has advertising been in implementing agency banking strategies?

29. In your opinion what will the future success of Agency banking depend on in Kenya?

30. What barriers have you created to deter competition in agency banking?

Section C: Challenges faced in strategy implementation

31. How has government regulations affected you in the implementation of agency banking?

32. How has agent staff turnover affected operations at the agent locations?

33. How do cope with resistance to change by customers in embracing agency banking?

34. How do you deal with imitation of strategies by competitors?

35. How is the economic condition of the country affecting agency banking?

36. How do you deal with illiteracy levels of customers considering agency banking operates on technology?

Section D: SWOT Analysis

In your opinion what are the opportunities and threats that face Equity Bank limited in agency banking market segment.

Opportunities

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Threats

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In your opinion what strengths and weaknesses does Equity Bank limited posses in agency banking market segment?

Strengths

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Weaknesses

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Section D: Industry and competitive environment

In your opinion how do the following forces affect competition in the banking industry in relation to agency banking?

Bargaining power of customers

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Threat of new entrants

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Threat of substitute products and services

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Bargaining power of the agents

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Competitive rivalry within the banking industry

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THANK YOU FOR YOUR ANSWERS