

**THE INFLUENCE OF DISTRIBUTION SERVICE PERFORMANCE ON MARKET  
SHARE IN THE CEMENT INDUSTRY IN KENYA**

**BY**

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

**2016**

## DECLARATION

This research project is my original work and has not been presented to any university for academic award.

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

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## **DEDICATION**

I dedicate this study to my family for their support and bearing with me during this process and to my parents for the value they gave to education.

## **ACKNOWLEDGEMENT**

I would like to thank God for blessings and granting me the ability to work on this study. I would like to express my heartfelt gratitude to my supervisor, Prof. Justus Munyoki for his precious advice, guidance, recommendations and support during the drafting of this study. I would like to thank my lecturers in the school of business at the University of Nairobi for the knowledge that they instilled in me.

I also appreciate the services of the University of Nairobi's Jomo Kenyatta Memorial Library, which has made my research manageable due to the availability of reading materials needed during the study. I wish also to acknowledge my fellow masters students. Thanks for the inspiration, hard work and the spirit of excellence that we jointly established and esteem to date. I would also like to appreciate my respondents for their tremendous support during data collection.

## **ABSTRACT**

This study sought to establish the influence of Distribution Service Performance on Market Share in the cement industry in Kenya. Distribution service performance in this context refers to the degree of efficiency achieved by cement companies in making their products available to consumers punctually, adequately and at affordable prices. Market representation and ordering procedures are two factors that affect the efficiency in availing product to consumers hence influencing market share. This study therefore adopted representation and ordering as the two factors of study affecting distribution service performance in the cement industry in Kenya. The study was a descriptive cross sectional survey. The research was carried out among cement manufacturing companies in Kenya, which are six in number. It was thus a census since the number of the target population being six companies was conveniently accessible and allowed for a census study. Both primary and secondary data collection techniques were adopted. The study adopted both quantitative and qualitative methods of data analysis. The quantitative analysis focused on using descriptive and inferential statistics with results being presented in tables. Content analysis was also used in addressing the qualitative information acquired from the respondents. The study revealed that cement manufacturing companies provide adequate representation in the market. The study also established that competition leads to greater representation. The findings of this study also show that cement manufacturing companies are enhancing technology for representation and that effective communication improves ordering in cement manufacturing companies. The study established that ordering could lead to low cost and high responsiveness for cement manufacturing companies in Kenya. It further established that representation as denoted by effective visits by a sales representative and ordering characterized by accessibility, accuracy, processing and assistance are important to cement manufacturing companies. Cement manufacturers rated their performance as very good in representation and distribution while performance on ordering was rated as average. This study recommends that cement manufacturing companies in Kenya should embrace representation in the market in order to improve their distribution service performance. The study also recommends that cement manufacturing companies in Kenya should improve communication for effective ordering. This is because ordering positively contributes to distribution service performance for cement manufacturing companies. Finally, the study recommends that further research should be done to compare influence of representation and ordering in other sub-sectors of manufacturing. Future scholars should develop a framework for balancing optimal conditions to improve distribution performance for manufacturing companies in Kenya.

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## **ABBREVIATIONS AND ACRONYMS**

<b>ARML</b>	ATHI RIVER MINING LIMITED
<b>BC</b>	BUILDING CONSTRUCTION
<b>BMBC</b>	BAMBURI CEMENT LIMITED
<b>CPM</b>	CONCRETE PRODUCT MANUFACTURERS
<b>CSR</b>	CORPORATE SOCIAL RESPONSIBILITY
<b>EAPC</b>	EAST AFRICAN PORTLAND CEMENT LIMITED
<b>GDP</b>	GROSS DOMESTIC PRODUCT
<b>MCL</b>	MOMBASA CEMENT LIMITED
<b>NCC</b>	NATIONAL CEMENT COMPANY
<b>ROI</b>	RETURN ON INVESTMENT
<b>RS</b>	RESELLERS
<b>SCC</b>	SAVANNAH CEMENT COMPANY

## CHAPTER ONE: INTRODUCTION

### 1.1 Background of the Study

The cement manufacturing industry plays a pivotal role in a country's economy. Although the building and construction sector is growing and demand for cement is similarly growing, high competition has prompted companies to adopt measures that create a competitive advantage to protect and grow their market share. Improving distribution service performance is one such strategy and distribution service performance in this context refers to the degree of efficiency achieved by cement companies in making their products available to consumers punctually and adequately (Dyer and Blair, 2012). However, market share is a function of various attributes, both internal and external to a particular organization. The cement industry has kept emphasis on production and financial metrics as contributors to market share with little or no consideration to marketing metrics. The route to market and its related activities is important in achieving the desired share of market. This study seeks to validate the affiliation between distribution service performance and market share in the cement industry in Kenya.

Several theories will be adopted to support this study. According to the Signalling theory, one party also referred to as the agent plausibly delivers some information about itself to another party known as the principle. The Efficient Market theory hypothetically states that all the available information is fully reflected by the price of the assets. Although largely criticised, it assumes that the response of market participants on relevant information depends on the availability and accessibility of the information. Finally the Stakeholders theory focus on an organization's relationship with others in internal as well as external environments. It also focuses on the impact of these relationships on business performance.

Cement consumption in Kenya has been growing at a high rate similar to the growth rate of the building and construction sector. Some of the reasons behind this rapid growth in the industry include: the commercial construction boom, increasing demand for housing especially in urban areas, and far-reaching government and donor-funded spending on huge infrastructure projects in the country (Dyer and Blair, 2012).

In Kenya, cement history started in the early 1930s when in 1933, East Africa Portland Cement (EAPC) started to import cement. EAPC was established by the Blue Circle

Industries of the UK. The initial capacity of the plant was 60,000 tonnes a year, but it has since escalated to the current 700,000 tonnes a year. EAPC targets 1.3 million tonnes towards end of year 2017([www.eastafricanportlandcement.com](http://www.eastafricanportlandcement.com)). A 2012/2013 report by the Nairobi Stock Exchange indicates that the market capitalization of the plant is approximately Kshs. 10 billion. Bamburi Cement Ltd was established in 1951 and the major shareholder of the company is the France-based Lafarge. At first it used to produce 140,000 tonnes annually but its current capacity stands at 2.1 million tonnes each year and a Kshs. 70 billion market capitalization ([www.bamburicement.com](http://www.bamburicement.com)). 1974 is the year when ARM (Kenya) was founded and Paunrama family owns the largest percentage of shares. It began by extracting and processing minerals but in 1996 it also ventured into cement production. It is expected that by the end of 2017 the company's capacity will be 5 million tonnes a year and market capitalization of Kshs 29.7 billion ([www.armkenya.com](http://www.armkenya.com)).

Currently, there are six manufacturing companies namely; Athi River mining Ltd, Bamburi Cement Ltd, EAPC Co. Ltd, Mombasa Cement Ltd National Cement Co. Ltd and Savannah Cement Company. The six manufacturing companies are characterized by intense competition for market share. Several other international players such as The Dangote Group and local players have expressed interest to join the industry as it portrays a highly lucrative potential due to its phenomenal growth rate. This has unsettled the already existing players who are adopting various measures to protect and grow their market share. Recent reporting in the industry indicate that the companies are trying to outdo each other in production capacity building, investment in technology and other management practices such as business outsourcing (Bianchi, 2015).

### **1.1.1 Distribution Service Performance**

Due to global competition, organizations have been forced to improve their distribution. Instead of competing as individual entities they prefer competing as demand chains as it gives them an upper hand against their rivals through provision of high customer service levels by forging relationships with customers and suppliers while ensuring that ordering costs are minimized. Another strategic measure taken by distributors and manufacturers is the establishment of holistic cooperation between themselves and transportation organizations to facilitate effective communication, alignment of incentives and synchronization of decisions

in order to enhance distribution service performance and gain competitive advantage in the global market. (Venus, et al. 2009).

According to Rabinovich and Bailey, (2004), Distribution Service Quality comprises of an array of logistics that ranges from customer needs and marketing to delivery of finished products to customers. They claim that an effective physical distribution system is that which is reliable and ensures that products reach customers in a timely manner. Shan and Norm, 2007; Stephen, (1997) resolved that the poor road network in Uganda has created more challenges in the transport and warehousing segment. They show that ineffectiveness of Distribution Service performance can be minimized or eliminated through vertical collaboration. This is where manufacturers and the distributors downstream collaborate for common good.

Service performance helps in evaluating the ability of the provider to unfailingly deliver products within the stipulated time frame at a cost that is acceptable. Factors such as product quality, product availability, reliable delivery and other elements like timely responsiveness and effective communication have a positive relationship with customer satisfaction. Recurring purchases of products that represent augmented expenditure between business partners come as a result of customer's burning desire to maintain a healthy and constructive relationship with the supplier (Bowersox, et.al, 2002).

There is a relationship between service performance and customer satisfaction and the intention to buy again. Customer satisfaction may be evaluated depending on the consumption experience and total purchase of a given commodity or service over a period of time. The assessment may be performed based on confirmation or disconfirmation of purchase of commodity or service. Increased customer satisfaction has been associated with improvement in economic returns of a company, including profitability and market share. Customer satisfaction can be increased by improving the quality of service (Zeithaml, 2000).

### **1.1.2 Market share**

Market share can be defined as fraction of an industry that a company controls. It is also the overall sales of a market that a particular company earns in a given period of time. To obtain the percentage value of market share, simply divide the company's sales in a given period by the sum of the industry's sales over the same period. (Bianchi, 2012).

Market share is the most imperative aspect that can be used by marketers rate the effectiveness of marketing initiatives like advertising campaign, branding initiative, CRM programs and any other revenue generation program. This aspect is used to gauge how the company is performing on the market in relation to competitors. Dyer and Blair (2012) established that the overall production of cement has been rising at an average of 11.6% per annum. They further noted that this has been as a result of entry of new cement producers in the industry and overproduction by the existing firms to cushion themselves against rising competition. All these parameters have been attributed to the scramble for market share by the players in this industry.

### **1.1.3 Cement Industry in Kenya**

Kenya's established cement industry is home to six manufacturers, the largest of which are Bamburi Cement, a subsidiary of the Lafarge Group, with an annual installed capacity of 2.1m tonnes at plants in Nairobi and Mombasa; National Cement, a subsidiary of Devki Group, with 2m tonnes; the EAPC Co. Ltd with 1.3m tonnes; Mombasa Cement and Savannah Cement, each with 1.5m tonnes of annual capacity; and ARM Cement, formerly Athi River Mining, with 1m tonnes of installed capacity (KNBS, 2015).

Cement production and consumption have both been on the rise in recent years, although the latter continues to outpace the former, with the Kenya National Bureau of Statistics (KNBS) reporting in its "2015 Economic Survey" that total cement production rose by 16.3% in 2014 to reach 5.88m tonnes, compared to a 7.8% increase recorded in 2013. Although consumption stood at 5.2m tonnes in 2014, it has been increasing faster than production, with the KNBS reporting a 21.8% rise in consumption in 2014, driven by robust growth in the construction industry. In February 2015 Standard Investment Bank forecast that Kenya will remain the dominant country for cement activity in the EAC through to 2017, accounting for 42% of total consumption and 51% of total production (Economic Survey, 2015).

A number of cement manufacturers have moved into the Kenyan market in recent years, attracted by a spate of planned infrastructure projects including the Standard Gauge Railway, which will require up to 650,000 tonnes of cement during its four-year construction phase, and the Lamu Port-South Sudan-Ethiopia Transport Corridor Project, which also involves the construction of new highways, tourism facilities, and an oil refinery and a pipeline connecting the Lamu Port to South Sudan, Ethiopia and Uganda at an estimated cost of \$25bn

(Economic Survey, 2015)The most notable new market entrant is Nigerian giant Dangote Cement, which in March 2015 announced plans to invest \$400m to build a cement plant in Kitui. The factory is expected to reach annual production capacity of 3m tonnes, up from the 1.5m tonnes originally planned, as a result of new limestone supply after the firm was granted a concession to mine in Kitui County. Cemtech, a subsidiary of India's Sanghi Group, also announced plans to invest \$131m in a new cement plant in February 2015.

Expansion among existing players is also ongoing; in January 2015, Savannah Cement announced plans to build a second milling facility, while Karsan Ramji & Sons, based in Kitengela, said in August 2015 that it will begin construction on a new cement plant in Nakuru, after previously unveiling plans to invest nearly \$5m in a cement mini-plant in May 2014. National Cement, meanwhile, is currently in the process of building a new \$200m cement plant in Kajiado. Despite its strong growth prospects, the industry faces a number of challenges moving forward, including the depreciation of the shilling, depressed global commodities prices and falling international demand. Furthermore, the entrance of Dangote and Cemtech into the market will increase competition in the segment, with demand still expected to remain greater than supply in the near future.

It is quite easy to note that most of the reports and information coming from the sector are highly biased towards internal capacity building. The problem is that internally focused metrics like production capacity, technology and management practices can be misleading. While the results might be satisfactory to the inwardly focused organization, the contentment can be deceiving if the organization is performing poorly on the global market. Such issues make many large customer-oriented organizations become disadvantaged as compared to smaller but more agile organizations. Market share can be influenced by many factors for instance the price, promotion, distribution or even the product propositioning.

#### **1.1.4 Cement Distributors in Kenya**

Companies need to distribute their cement across the entire nation to ensure they fully exploit target market. The cement companies may also decide to distribute its products to some regions more than others. An expansive dealer and retailer network is also necessary to support and empower the trade partnership so as to cover the potential market fully. A two-layered distribution chain concept that incorporates dealers and manufacturers is more effective. It is a well-articulated mechanism because dealers easily buy cement from



manufacturers. The responsibility then lies with the dealers who link up with contractors, institutional and government buyers as well as retailers. C&F agents can be hired by companies to transport cement to warehouses for distribution to various clients. Road and rail are the common forms of transport. In case of exports cement is transported to the neighbouring countries like Tanzania and South Sudan via roads and rail (Kumar and Bansal, 2013)

Upon reaching the port of entry in the importing country, it is received by the C&F agents to the warehouses and then transported to the dealers/distributors who ensures that the products reach end users in good condition. At times physical ownership of goods is not necessary. Dealers and sub-dealers receive orders from potential customers and forward them to manufacturing companies. They then coordinate and monitor the entire transportation process to ensure goods are delivered to right destinations. Most cement companies utilize distributor networks because they facilitate formation of partnerships that enable them effectively connect and get in touch with potential customers for their products (Bianchi, 2012).

Another advantage of distributor networks is that distributors have enough storage facilities where products can be kept safely. Due to this, they can easily control the supply chain because they get orders directly from the clients. They in a way influence the manufacturer's business. Nonetheless, as more players enter the industry competition continues to increase and everyone wants to get large market share. As a result, many cement manufacturers in Kenya are currently implementing innovative strategies that are likely to transform the way cement is distributed in the country and the entire region (Bianchi, 2012).

## **1.2 Research Problem**

With the increase in competition and entry of new players into the cement industry, market share growth will be achieved by companies that can get their products to the consumers faster and more efficient than its competitors. Several generic strategies have been widely studied in the cement industry both globally and locally. These studies have observed the different factors that affect market share. There are however limited studies on distribution service performance. Further afield in South Africa, Rensburg and Niekerk (2011) did a research on value differentiation. They studied the cement industry of South Africa where their main focus was on customised value propositions. They considered the possibility of using discernment of customers on the significance of value characteristics to create

distinction between commodity products and hence create a competitive advantage among companies in the South African cement industry.

Kinyua (2007) did a research to establish the “Strategic Responses by Cement Manufacturing Companies”; The objectives of the study were: to ascertain strategic measures put in place by cement manufacturing firms in Kenya; to examine behaviours of cement manufacturing firms in a challenging environment and; to establish the constraints faced by the firms in responding to the challenges. Nduati (2014) did a research to establish “The Influence of Competition on Strategic positioning of Cement Manufacturing companies in Kenya”; He evaluated the impact of competition on market positioning for various cement manufacturing companies. Specific objectives of the study were: to ascertain the impact of increasing competition on customer behaviour in relation to cement manufacturing companies; to evaluate the impact of competition on the positioning of various competitors in the industry and to determine how technology orientation of cement companies has been affected by competition.

Most of the studies conducted have been focusing on financial and managerial approaches in reaction to competition and protection of market share. However, contemporary market conditions no longer allow cement manufacturers to treat their merchandises as commodities or to enjoy the extravagance of centring only on financial metrics, production metrics and managerial practices as highlighted in the previous studies. Despite the numerous studies that have been done, there still lack a precise explanation of the marketing factors that affect market share in the cement industry. This research sought to identify the relative influence of the various attributes of distribution and service performance based on customer perceptions and their contributions to market share. The research topic was: “the influence of distribution and service performance of cement manufacturers on market share in the cement industry in Kenya.”

### **1.3 Research Objectives**

The following was the main objective of the study:

- I. To assess the impact of representation and ordering on distribution service performance in Kenya's cement industry

### **1.4 Value of the Study**

The research is expected to benefit the following and others;

The study will help senior managers in the field of marketing, distribution and logistics in identifying factors that are non-financial indicators that contribute to market share and hence be able to make informed decisions. In particular, the study will be beneficial to marketing managers as it seeks to inform the influence of distribution and service performance in differentiating their offers.

To the current and potential investors and policy makers in the cement industry, the study will assist them with adequate knowledge on the importance of marketing parameters and their contribution to market share. This will help them in making informed decisions and advice the company boards accordingly.

The research will also be a reliable reference material for scholars as well as future researchers who might find interest in studying the Kenya's cement industry. It will therefore help fill the knowledge gap in the study area.

## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 Introduction**

The various theories discussed in this chapter guides the study and they include: The Signalling Theory, Efficient Market Theory and The Stakeholders Theory. It then provides empirical evidence in line with the research problem to create insight and provide a clear understanding of the research problem. In precise, it discusses the effect of representation on distribution service performance and the impact of ordering on distribution service performance.

### **2.2 Theoretical review**

The theories relevant to the study are the Signalling Theory, Efficient Market Hypothesis and the Stake-holders theory.

#### **2.2.1 Signalling Theory**

This theory was proposed by Brennan and Copeland in 1988. According to the signalling theory, information acted as a means of passing information from managers to stakeholders. The behaviour of two parties that have access to dissimilar information can be described the signalling theory. In this context, one party is the sender and the receiver is the second party. The signal moves from the sender to the receiver who then interprets it accordingly (Kamwenji, 2014). It refers to behaviour whose main goal is to convey or signal some information about ourselves to others – regardless of whether it's true or not. This theory is applicable in this context to explain how distribution service performance influences market share through the interchange of information between cement companies and the relevant stakeholders in the distribution network.

It is hard to directly perceive most of the things we want to know about each other. Some of them include emotion states like being happy or not, inborn qualities like being smart, and the capacity to play a given role in future, for instance, being a loyal friend. Rather we need to consider signals that are perceivable indicators of these qualities that are not directly observable. Signalling theory gives a clear picture why some signals are reliable while others

are not. It focuses on how a given quality is related to respective signal and the aspects of the surrounding community or signal that increases its reliability. It's concerned with the outcome of the unreliability of signals, that is, the amount of unreliability than can be accepted in a signal.

Competitive environments are prone to signalling. Hardly do the sender's and receiver's interests align exactly, instead they are often misaligned. At times, for instance with prey and predators, the competition can be overt and fierce. Potential prey can send a message to predators that it might be very hard for them to hunt them or they are too poisonous and can fight back really hard. If potential competitors are unevenly matched, then they are likely to signal their strength to each other. As a result, the situation whereby the weaker may lose in the battle and be costly to all of them can be avoided. If the signalling is between agreeable acquaintances, then competition may be subtle. However, conflicts of interest can still arise even with cooperative relationships.

In scenarios that are very competitive, one can benefit from deception. One may avoid to eat a bug which presents itself as poisonous even if in real sense it is not. an individual is likely to secure a job if he presents himself as more competent and experienced than he really is. However, the signal may lose meaning if the deception rate becomes too high. Therefore the rate of deception must be capped for signals to be meaningful and for communication to occur. What keeps the signal reliable is the main concern for the signalling theory. Reliability of signal depends on its ability to produce truthfully. Costs associated with reliability arise from punishment given when one is caught cheating and production costs. This theory is applicable in this research to explain the level and nature of competition for market share in the cement industry in Kenya.

### **2.2.2 Efficient Market Theory**

According to Fama and Samuelson (1992), the origin of this theory can be traced back to the 1960s. According to efficient market theory, new information is quickly reacted upon by the stock market, and therefore at any instant, the market comprises of views of different investors. A market in which stock prices give a true picture of the available information can be regarded as an efficient capital market. According to Fama (1970), the three types of efficiency are: weak, semi-strong and strong efficiencies. According to weak efficiency,

today's stock price reflects all the past prices of the very stock. Thus, it is hard to predict and beat a market by use of technical analysis. Semi-strong efficiency claims that the current share price of a stock incorporates all public information. It implies that neither technical nor fundamental assessment can be used to predict a market. Strong efficiency is the most desirable type of market efficiency. It incorporates the entire information of the market regardless of whether it's public or private and the information is integrated in the stock price. It does not favour any investor as it is fair to all. The market movement is random and thus very difficult to predict. This theory is applicable in this context to derive the relationship between distribution service performance and market share. Company valuations at the stock market contributes in the shaping of competition in the industry.

Valuation of firms is evaluated based on the available information regarding its worth. Market capitalization amount can be provided by an effective evaluation because it gives the product of the number of issued shares and the current share price. Nonetheless, the market price is prone to constant changes because of the available information. The investors may decide to buy or sell shares depending on the market trends and it can have an impact on the market price. The market efficiency assumption focus on the way information is processed on a stock market and gives clear insights on how flow of information can impact the valuation process. Based on mobilization of the world and globalization, this assumption holds because information is now flowing much faster and modern technologies have enabled people to have free and more reliable access to information around the world.

### **2.2.3 Stake Holders Theory**

It was initially founded by R. Edward Freeman (1984). This theory focuses on organizational management as well as business ethics. It explains on how an organization is supposed to be managed as per the morals and values. The stakeholder's theory is of the opinion that the effectiveness of an organization is measured by its ability to satisfy both the agents and shareholders who have a stake on the organization. While coming up a strategy, it is imperative for the management to set a clear interface between its competing demands as stipulated by the strategic goals. The top executives of a firm make choices or decisions that affect the distribution service performance of the company and thus its market share.

Freeman (1984) defines a stakeholder an individual or any group that is affected or can affect the achievement of the objectives of a given organization. Stakeholder concept is a basic redefinition of an organization. Basically, the whole idea focus on how the organization needs to be conceptualized. An organization is a collection of stakeholders with a common objective of managing their needs, viewpoints and interests. It is the responsibility of the management team to fulfil this stakeholder management. The administrators should manage the organization in a way that safeguards the rights of stakeholders by ensuring that they are actively involved in the decision making process. The management should also act as the agent of the stakeholders to safeguard the long-term goals and ensure survival of the firm (Friedman, 2006).

The role of management, character and purpose of organization and the stakeholder's definition are highly contested and very unclear in literature and has undergone serious changes over the years. The founder of stakeholder concept also altered his definition at some point. Freeman (2004), came up with another definition of stakeholder were he regarded a stakeholder as a person or group that is critical survival and success of an organization. A new principle is added by Freeman (2004) and it reflects a new trend as far as stakeholder theory is concerned. The management should always incorporate the stakeholder's perspective in their decision making process. It is regarded as the stakeholder recourse principle. If the directors are failing in their duties, then stakeholders have right to bring action against them (Freeman, 2004).

Literature regards the normative stakeholder theory as an integration of principles and thoughts of stakeholder concept. Normative stakeholder theory consists of directives that should be followed by managers and stakeholders to enable them act in line with ethical principles and purpose of organization (Friedman, 2006). Descriptive stakeholder theory is another theory that elaborates on stakeholder concept. The focus of this theory is on the behaviour of managers and stakeholders and perceptions towards their roles and actions. The instrumental stakeholder theory is concerned with the actions of the managers. For instance, if they want everything in the workplace to favour them. Some literature considers managers' own interest as the interest of the organization. In most cases, such interests are concerned with maximization of profits or value of the shareholder. The implication of this is that stakeholders are treated with managers as per the stakeholders' concept, then the organization

is likely to be more successful in the long term. As put by Donaldson and Preston (1995), the whole issues regarding relationship between managers and stakeholders can be wrapped up in this three categories that tries to explain the basic stakeholder concept. These three categories have for sure popularized stakeholder concept.

In general, the theory is closely related to the social responsibility theory. This theory fluctuates between two ends: one that lessens the firm's obligation to the achievement or maximization of profits for its shareholders, and another that augments the obligation of the firm to include a wide range of actors with an aim of improving the firm's performance. Although the stakeholder theory can be more appealing when looked at from an ethical perspective, it has been critiqued because it lacks a strong base that would be adequate to various schools of thoughts. However in many instances, it has been accepted on the argument that the Stakeholders theory is based on notion of the common good and the mutual satisfaction of the all the players in an industry. This theory is adopted for this study.

### **2.3 Empirical Review**

Internationally, cement producers are known to adhere to set product standards and specifications utilising similar pricing structures (Zeidan and Resende, 2009; Blum, 2007; Stroller and Steen, 2006). The predicament, however, is that general lack of true market forces (Blum, 2009) and a standardised value proposition in the cement industries has created a strategic focus of market share protection. As a result, sales became a priority for cement producers and marketing strategies dealing with differentiation and unique value propositions became secondary (Jacques, 2007). In fact Jacques (2007) describes the aim of sales pitches in a typical cement company as “aimed at making friends rather than demonstrating that their products were better than the competitions’. Perhaps this is guided by the business to business approach emphasizing on representation, ordering, technical support and relationship marketing.

The literature identifies three major types of strategic orientations: the first is market orientation proposed by Narver and Slater (1990), then the technology orientation postulated by Gatignon and Xuereb (1997) and the third is the selling orientation founded by Noble et al. (2002). Out of these three, the one that has been overly researched is the market orientation. Previous studies on market orientation suggests that it comprises of three



behavioral elements which are: competitor orientation, consumer orientation and inter-functional orientation (Narver and Slater, 1990). Three types of orientations namely competitor, customer and technology constitute the market orientation. According to Narver and Slater (1990), customer orientation provides a deeper understanding of potential customers and facilitates delivery of value for them.

To protect margins and market share, Kenyan cement producers will have to change their mind-set. The need to differentiate products effectively has never been more pertinent. Despite a common misconception that it is impossible to differentiate products Levitt (1980) asserts that all goods and services can be differentiated by presenting value qualities different from those of competitor products. Levitt's seminal work argues that to a probable buyer, a product is a multifaceted collection of value qualities. According to Clarke-Hill et al. (2002) a commodity product such as cement is a product that is manufactured based on pre-determined standards and precise specification which is purchased in response to essential or basic needs and used in places where rational factors have influence on purchasing decisions. This definition leaves little room for differentiation.

However, when physical attributes of products offered by competing producers, are generic or scarcely differentiable, buyers will consider products that are differentiable by non-tangible value attributes. The differentiated offer will have an effect on the market share of a particular company. Following the lead of international companies, Kenyan producers would benefit from understanding the importance of value attributes of distribution and service performance other than price and product, which could be used as basis for differentiation and significantly contribute to their market share growth.

Logistics network design also has a major impact on market share. Perhaps, the logistics network design is needed most by the research to help in finding methods for ascertaining the link between the revenues generated by a company and the level of logistics provided by customer service. Currently, most firms have regarded customer service as a limitation on network design and the costs are being reduced subject to this limitation. Nonetheless, most firms are trying to maximize profits with both cost and revenue as variables. This is because the customer service level is expected to be at peak due to economic factors.

The objective of the business, for instance, maximization of profit against minimization of cost, says a lot about the network design. Developing relationship for a given revenue-

logistics service can be as challenging as determining the efficiency of its marketing and other activities such as advertising (Ballou, 1992). The revenue-service relationship for location models can be conveyed as function of price where price reduces as the distance between customers and their sourcing point increases. Customer order cycle time might be the most appropriate variable for channel simulators. The techniques used for similar problems needs to be researched on.

### **2.3.1 The Effect of Representation on Distribution Service Performance**

Traders and producers can only effectively provide utility by distributing goods physically. Buyers won't acknowledge value for goods until they are placed in a spatial and sequential framework which will provide them the opportunity to enjoy both psychological and physical attributes that are linked to possession. Customer pickups increases with substantial representation. The customer should be notified immediately his order arrives and once the customer arrives to pick up his order, it should be easily identified. Since every customer order involves two stages in the supply chain, order visibility becomes a very important aspect as far as manufacturer storage is concerned. However, in a drop shipping situation, order tracking becomes more challenging to implement because it requires wide-ranging incorporation of information systems at both retailer and manufacturer levels (Chopra, 2001).

The changing business environment has necessitated the need for strategic methodologies for service delivery. Generally, service is a very important aspect of any business. Even though the need for transit and stored goods is equally important to an organization, the nature of services anticipated by the buyer and importance of distribution have changed alongside the business environment. With the advent of globalization, any country is in position to produce and reach its potential customers wherever in the world by the use of advanced technology. However, the difference comes in production quality and idealization of service delivery to end users. In the present times, treating customers with dignity they deserve has become a priority for many organizations and a necessity to their existence (Dadkhah, 2009). The impact of improved service delivery on quality of relationships in scenarios that are characterized by increased dependence among dealers and buyers, is overseen by improved delivery of services which enhances customer satisfaction. Relationships between buyers and dealers may have noteworthy impact on the firm's performance with regard to responsiveness, flexibility and management of customer relationships. This in turn helps in

building supplier firm's capacity towards gaining high customer value and competitive advantage (Squire et al., 2005).

Logistics Service Providers (LSPs) have had their business opportunities increased as a result of increasing focus on fundamental competencies. LSPs or third party logistics service providers as commonly referred to conduct logistic activities for willing firms within the supply chain. They function as intermediary for most companies. The core functions of LSPs include: transportation, distribution, warehousing, logistics management and customer service and inventory (Vaidyanathan, 2005). The LSP sector is under great pressure. Since the margins are small, the players in this sector endlessly look for greener pastures to increase profitability of their businesses. They do this by, for instance, expanding or scaling up their activities in foreign countries and coming up with new ways to retain their customers (Lemoine et al., 2003). Pires (2006) disintegrated physical supply into storage and transportation segments and acknowledged the significance of the service as well. He noted that as far as the purchaser is concerned, service is part of the product because it is incorporated in whatever he is buying.

### **2.3.2 The Impact of Ordering on Distribution Service Performance**

Distribution can be defined as the process of transporting and storing a product from the manufacturer to the end user within a supply chain. Distribution plays a pivotal role in the entire profitability of an organization because it has an effect on customer experience as well as on the cost of supply chain. Distribution network's performance at the highest level need to be assessed based on two factors: cost of meeting customer needs and the customer needs that are met. The latter has a direct influence on the revenues of the company, which along with the former determine delivery network's profitability (Heiko, 2007).

Critical factors like improved service delivery, product quality, price effective communication and quality of salesperson in conjunction with effective physical distribution service presents firms with new sales opportunities. Increased sales could lead to gaining of competitive edge and increased efficiencies in distribution. On the other hand, excess delivery time, limited stock and superfluous variation in delivery time and performance can result in loss of sales. Six ways in which companies can reduce their costs and expenses through improved service delivery include: conducting business from the customer's perspective, clear definition of service elements, designing after sell service programs,

developing competitive service package, establishing performance controls and testing their programs on real market (Heiko, 2008).

In markets that are highly competitive, the big fishes in the cement industry are putting some strategic mechanisms in place to enable them provide innovative combinations of high quality products and services. They are also providing integrated solutions that are tailored to the needs of each customer. Such organizations have incorporated innovation in service delivery and have enabled their service capabilities through strategic sharing of information. As such they synchronize business operations like finance and business consultancy to provide long term and sustainable solutions to their customers as a way of increasing customer value (Rajagopal, 2007).

Service delivery is measured in different ways that include order visibility. Order visibility is the customer's ability to follow their order from the time it was placed to delivery. The time between order placement and delivery is known as response time and is used to measure service performance. Product variety can be defined as the number of different configurations or products that are desired by a customer from a particular distribution chain. The likelihood of having a product in stock at the time when customer makes an order is determined by availability. Customer experience has to do with the simplicity with which a customer can effectively place and have his order. Return-ability is the ability of a customer to return any commodity that is unsatisfactory as well as the ability of distribution network to deal with returns of that nature (Liu et al., 2007).

Companies that target clients who can withstand longer response time need some locations that are not very close to the clients and can dwell much on increasing capacity of such locations. Companies that target clients with short response time, on the other hand need to be close to their clients. Therefore, as response time reduces, serves to increase the customers' desire and in turn the facilities in the network also needs to increase.

Lee et al. (1997) performed a study on the impact of information sharing on retailers with orders of fixed intervals. He realize that ordering policies that are scheduled have a considerable impact on variation of demand within a supply chain. The study also reveals that the variation in supplier's demand depends on the alignment of the orders of retailers. Synchronized orders increase demand variance. Various supply chain objectives can be

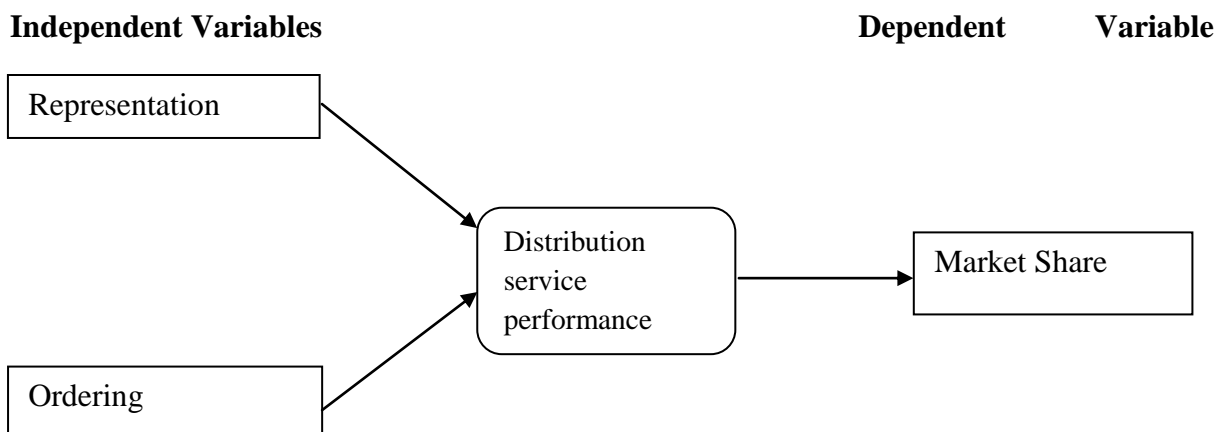
achieved through good distribution. This is why different distribution networks are selected by firms in the same industry.

## 2.4 Conceptual Framework

This study conceptualized that distribution service performance have two sub variables which include representation and ordering. Distribution service performance as the independent variable is hypothesized to influence market share which in this case is the dependent variable. This interaction of variables is presented in figure 2.1.

**Figure 2. 1: Conceptual Framework**

**Source: Researcher 2016**



Distribution service performance has been defined in this study as the degree of efficiency achieved by cement companies in making their products available to consumers punctually, adequately and at affordable prices (Dyer & Blair, 2012) This efficiency has an overall effect on the market share. Market representation and ordering procedures are two factors that affect the efficiency in availing products to consumers hence influencing market share of cement companies.

## **CHAPTER 3: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter addresses the research design, target population, methods of data collection and data analysis techniques.

### **3.2 Research Design**

This study is a descriptive survey that cuts across various business concepts. The focus of this design is on a population's subset at a given point in time. Cross-sectional study takes a characteristic segment of its target group and its overall findings are based on views of the target group. Some assumptions are made as well. The method was useful in identifying distribution service performance in cement companies. Omondi (2006) in a similar study for the motor industry successfully used this design.

### **3.3 Target population**

A target population is a subset of a large population that has similar characteristics of which general conclusion of the study can be drawn (Mugenda & Mugenda, 2003). The study is on the influence of distribution service performance on market share in the cement industry in Kenya. Therefore, the research was carried out among cement manufacturing companies in Kenya, which are six in number (Dyer and Blair Investment Bank, 2012). Although Mugenda and Mugenda (2003) recommended that 10%-30% of the accessible population is enough for descriptive studies, the study involved all the cement manufacturing companies in Kenya as shown on Appendix III. It was thus a census since the number of the target population being six companies is conveniently accessible and allows for a census study.

### **3.4 Data Collection**

For purposes of this study both primary and secondary methods of data collection were adopted. Structured questionnaires were used to collect primary data. The questionnaires were tailored to question the specific study objectives. In addition, the questions in the

questionnaire were under the specific headings as highlighted in the research variables thus ensuring enforcement of validation of the study. The questionnaire was developed to contain open ended questions as well close ended questions. A five-point Likert-type scale was used for close ended questions. It ranks from 1 (No Extent) to 5 (Very Great Extent). The questionnaires were self-administered. They were dropped to the respondents who were given ample time to fill them and then they were collected later. The target respondents were senior managers directly or indirectly involved in marketing, sales and supply chain management. This ensured ease of collection of data and helped to save time. Secondary data was also acquired through an analysis of publications, journals and other relevant material in relation to the research topic. The research used the information collected from respondents for research purpose only. The consent of the respondents was sought through the firm's administration. The information obtained was kept confidential.

### **3.5 Validity and Reliability**

Validity is the extent to which a given instrument may be valid (Orodho, 2005). It is the precision and meaningfulness of interpretations which are research based (Mugenda and Mugenda, 1999). A researcher can use validity to approximate error and make appropriate corrections. The instruments used in the study will be tested to verify their validity. Validity was ensured by using experts in the field. The instrument was scrutinized and approved by an expert. The researcher administered the questionnaire on five respondents and the results were analysed. After a week the same was repeated by a colleague to confirm the validity of the instrument.

Reliability of an instrument is its ability to give persistent results when used to measure a given parameter. According to Wiersma (1985), reliability is the instrument's consistency in measuring data given. A test-re-test technique was employed to estimate the degree. The researcher prepared a research instrument paying attention that it focuses on the issue of concern. After a week the researcher administered the same sample in a pilot form. The data was analysed again and then findings of the first test were compared to the second. A correlation test was undertaken.

### **3.6 Data Analysis**

Both quantitative as well as qualitative methods of data analysis were adopted in this study. Inferential and descriptive statistics were majorly applied in quantitative analysis. Trochim (2006) noted that fundamental qualities of a survey or study can be best explained by the help of descriptive statistics. This is because descriptive statistics presents simplified synopses about the measures and the samples. Simple graphics analysis was also incorporated in the entire analysis and is also the backbone of many quantitative analysis techniques. The Statistical Package for Social Sciences (SPSS version 21) program was used together with Microsoft excel (version 2013) to produce the measures of central tendency and responses. Such measures like percentages and mean are vital in drawing pie charts and graphs. Content analysis was also used in addressing the qualitative information acquired from the respondents. As put by Hsieh & Shannon (2005), qualitative content analysis is more advantageous because it allows those carrying out the study to comprehend the communal authenticity in a idiosyncratic but scientific manner. Inferential statistics involved ANOVA and regression analysis.



## CHAPTER 4: DATA ANALYSIS, INTERPRETATION AND PRESENTATION

### 4.1 Introduction

This study targeted the six cement-manufacturing companies in Kenya. It was therefore a census study. All the six questionnaires administered to collect data from the companies were filled and returned. This translated into a response rate of 100% which could be attributed to the fact that the study had a small population and the researcher was able to reach all of the targeted respondents. The results of the study are presented in this chapter. It starts with the background information of the respondents and the companies' profile. The next section presents results on the influence of distribution service performance on market share.

### 4.2 Background Information

No female respondent took part in the survey. All the respondents (100%) were found to be male. The men were also asked to specify their position in the organization. Half of the respondents indicated their positions as marketing manager while the respondents who indicated their positions as assistant marketing manager, logistics manager and marketing officer were 16.7% each. These results are shown in table 4.1.

**Table 4. 1: Respondents' Distribution by Position**

	Frequency (f)	Percentage (%)
Asst. Marketing Manager	1	16.7
Logistics Manager	1	16.7
Marketing Manager	3	50.0
Marketing officer	1	16.7
Total	6	100.0

The researcher asked respondents to indicate their education level. 50% of the respondents showed that they had university degree while the other half (50%) indicated that they had a master's degree. These findings are tabulated in table 4.2.

**Table 4. 2: Respondents' Distribution by Education level**

	Frequency	Percent
University degree	3	50.0
Master's degree	3	50.0
Total	6	100.0

The respondents were requested to specify the duration that they have been in their particular organizations. From the results 33.3% of the respondents have been in their particular organizations for 4-6 years while another 33.3% of the respondents have been in their particular organizations for 7-9 years. Respondents who indicated that they have been in their respective organizations for less than 3 years were 16.7% while another 16.7% of the respondents indicated that they have been in their respective organizations for over 10 years. These results are indicated in table 4.3.

**Table 4. 3: Duration in the Organization**

	Frequency	Percent
Less than 3 years	1	16.7
4-6 years	2	33.3
7-9 years	2	33.3
Over 10 years	1	16.7
Total	6	100.0

The respondents were requested to point out the duration that their companies have been in service. As shown in table 4.4 half of the respondents indicated that their respective companies have been in service for over 20 years. The findings also show that 33.3% of the respondents indicated that their respective companies have been in service for 5-10 years while 16.7% indicated that their companies have been in service for less than 5 years. The results are presented in table 4.4.

**Table 4. 4: Duration Company has been in Operation**

	Frequency	Percent
Less than 5 years	1	16.7
5-10 years	2	33.3
Over 20 years	3	50.0
Total	6	100.0

Respondents were asked to indicate whether their respective companies face competition or not. All the respondents indicated that their companies faced competition.

### **4.3 Distribution Service Performance**

Distribution service performance in this study was measured using two parameters which are representation and ordering. This section presents results on representation and ordering.

#### **4.3.1 The effect of Representation**

The respondents were requested to show the extent of their contentment with five statements regarding representation. A scale of 1 – 5 was used where 1 and 5 were at the extremes, that is 1 indicates no extent while 5 indicates full agreement. Table 4.5 below shows the outcome

**Table 4. 5: Representation**

	We provide adequate representation in the market		There is competition in representation among companies		The company is enhancing technology for representation		Effect of company history impacts representation		Competition leads to greater representation	
	F	%	F	%	F	%	F	%	F	%
No extent	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Little extent	0	0.0	0	0.0	0	0.0	2	33.3	0	0.0
Moderate extent	1	16.7	3	50.0	1	16.7	4	66.7	0	0.0
Great extent	2	33.3	3	50.0	2	33.3	0	0.0	3	50.0
Very great extent	3	50.0	0	0.0	3	50.0	0	0.0	3	50.0
Total	6	100.0	6	100.0	6	100.0	6	100.0	6	100.0
N	6		6		6		6		6	
Mean	4.33		3.50		4.33		3.33		4.50	
Std. Deviation	.816		.548		.816		1.033		.548	

The results show that respondents to a great extent agreed with the statement that their respective companies provide adequate representation in the market (M=4.33, SD=.816). The findings also show that to a great extent respondents agreed with the statements that their respective companies are enhancing technology for representation (M=4.33, SD=.816) and that competition leads to greater representation (M=4.50, SD=.548). The respondents also agreed to a moderate extent that there is competition in representation among companies (M=3.50, SD=.548) and that the effect of respective company history impact representation (M=3.33, SD=1.033).

The outcomes of this study confirm that representation is a very important factor in the cement industry as it enhances relationships with customers. In line with the Signalling theory, representation facilitates communication between companies and their stakeholders which helps shape up competition and thus market share. Representation is extremely

important for customers as it improves on communication and interchange of information between companies and their customers. To make this possible, full incorporation of information systems is imperative at the manufacturer's as well as retailer's levels. These findings resonate with observations by Chopra (2001).

As observed by Dadkhah (2009), the prevailing business environment has provoked the need for vigorous approaches to service improvement in manufacturing sector. Service is critical for goods in transit, storing and giving goods in manufacturing industry. The nature of services anticipated by the buyer as well as the significance of distribution networks have evolved alongside business setting. The quality of production and idealization of the delivery of the service to customers are some of the main organizational activities and a necessity to their existence.

The services performance is important as it dictates the relationship quality that the manufacturer will have with the customers. The effectiveness in distribution of goods and services will improve satisfaction among customers and vice versa. The relationship between buyers and dealers is important as demonstrated by Squire *et al.* (2005) who observed that it influences customer relationship management, responsiveness and flexibility that helps in improving supplier firms' capacity towards gaining high customer value and increasing competitive advantage.

#### **4.3.2 The effect of Ordering**

The respondents were requested to rate the degree they agree with five statements in regards to ordering. They were to use a five point Likert scale as above. The results show that to a great extent, the respondents agreed with the statements that effective communication improves ordering (M=4.17, SD=.408) and that ordering can lead to low cost and high responsiveness (M=4.00, SD=.000). The results also show that to a moderate extent respondents agreed with the statement that ordering is computerized (M=3.17, SD=.408). The results are shown in table 4.6.

**Table 4. 6: Ordering**

	Ordering is computerized		Effective communication improves ordering		There is scheduled ordering policies		Ordering can lead to low cost and high responsiveness		We have fixed order intervals	
	F	%	F	%	F	%	F	%	F	%
No extent	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Little extent	0	0.0	0	0.0	4	66.7	0	0.0	1	16.7
Moderate extent	5	83.3	0	0.0	0	0.0	0	0.0	5	83.3
Great extent	1	16.7	5	83.3	2	33.3	6	100.0	0	0.0
Very great extent	0	0.0	1	16.7	0	0.0	0	0.0	0	0.0
Total	6	100.0	6	100.0	6	100.0	6	100.0	6	100.0
N	6		6		6		6		6	
Mean	3.17		4.17		2.67		4.00		2.83	
Std. Deviation	.408		.408		1.033		.000		.408	

The results of this survey show that to a little extent the respondents agreed that there is scheduled ordering policies ( $M=2.67$ ,  $SD=1.033$ ) and that their respective companies have fixed order intervals ( $M=2.83$ ,  $SD=.408$ ). These findings are presented in table 4.6.

The findings of this study have shown that ordering is critical to distribution as it determines movement and storage of commodities from the supplier point to the end user point in the supply chain. This is in agreement with Heiko (2007) who observed that distribution is a major factor affecting the general cost-effectiveness of a company because it openly affects both the customer experience cost of supply chain. Distribution network can be looked from the perspective of meeting customer needs and cost of meeting those needs. Meeting the needs of customers positively impacts the firm's revenues and minimizing distribution costs will improve the cost-effectiveness of the company.

The findings of this study have shown that customer order cycles that are shorter and condensed prices via distribution competences have yielded more sales. The results have also

shown that companies have managed to reduce costs through improved service delivery to customers, development of after sales service program and development of performance controls. These findings are in agreement with observations by Heiko (2008).

The study findings show that the growing competitive markets have compelled firms to come up with strategies that entail provision of advanced amalgamations of products and services tailored to needs of each customer. These findings are congruent with observations by Rajagopal (2007) who argued that in a competitive market, firms develop innovative combinations of service capabilities that are entrenched in sharing of information which enable synchronizing all the business processes to provide wide-ranging solutions to needs of each customer.

#### 4.4 Value Proposition

The researcher sought to establish the total value proposition offered by cement producers. These results are presented in table 4.7.

**Table 4. 7: Value Proposition**

	Representation (effective visits by a sales representative)		Ordering (accessibility, accuracy, processing and assistance)	
	F	%	F	%
Not important at all	0	0.0	0	0.0
Little importance	0	0.0	0	0.0
Moderately important	0	0.0	0	0.0
Important	2	33.3	6	100.0
Extremely important	4	66.7	0	0.0
Total	6	100.0	6	100.0
N	6		6	
Mean	4.67		4.00	
Std. Deviation	.516		.000	

The results show that respondents agreed that representation as denoted by effective visits by a sales representative (M=4.67, SD=.516) and ordering characterized by accessibility, accuracy, processing and assistance (M=4.00, SD=.000) were important for their respective companies.

Respondents were asked to rate their respective companies' performance in three areas namely representation, ordering and distribution.

**Table 4. 8: Value score**

	Representation	Ordering	Distribution
N	6	6	6
Mean	2.00	3.00	2.00
Std. Deviation	.000	.000	.000

The results in table 4.8 show that representation and distribution were rated as very good while ordering was rated as average.

#### 4.5 Regression Analysis

The following model was used to perform regression analysis:  $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$

Where Y is distribution service performance

$X_1$  is representation

$X_2$  is ordering

$\beta_0$  is a constant

$\beta_1$  and  $\beta_2$  are coefficients for corresponding variables

$\varepsilon$  is error term

The results of multiple linear regression shows that representation and ordering explained 97.8% of change in distribution service performance (Adjusted R Square=.978). These results are shown in model summary table 4.9.



**Table 4. 9: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.993 <sup>a</sup>	.987	.978	.82990
a. Predictors: (Constant), Ordering, Representation				

The analysis of variance (ANOVA) results show that the model used for analysis was fit. This was demonstrated by F value that was statistically significant ( $F=109.937$ ,  $p=.002$ ). These results are presented in the ANOVA table 4.10.

**Table 4. 10: ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	151.434	2	75.717	109.937	.002 <sup>b</sup>
	Residual	2.066	3	.689		
	Total	153.500	5			
a. Dependent Variable: Distribution service performance						
b. Predictors: (Constant), Ordering, Representation						

The coefficients table shows the contribution of each independent variable (representation and ordering) to distribution service performance. The results show that representation contributes positively to distribution service performance by a factor of 0.915. This implies that for every increase in unit in representation, distribution performance will increase by 0.915 units ( $\beta=0.915$ ,  $p=.007$ ). The results also show that ordering contributes positively to distribution performance by a factor of 0.088. This implies that for every unit increase in ordering there will be 0.088 unit increase in distribution service performance ( $\beta=0.088$ ,  $p=.567$ ). These results are summarized in table 4.11.

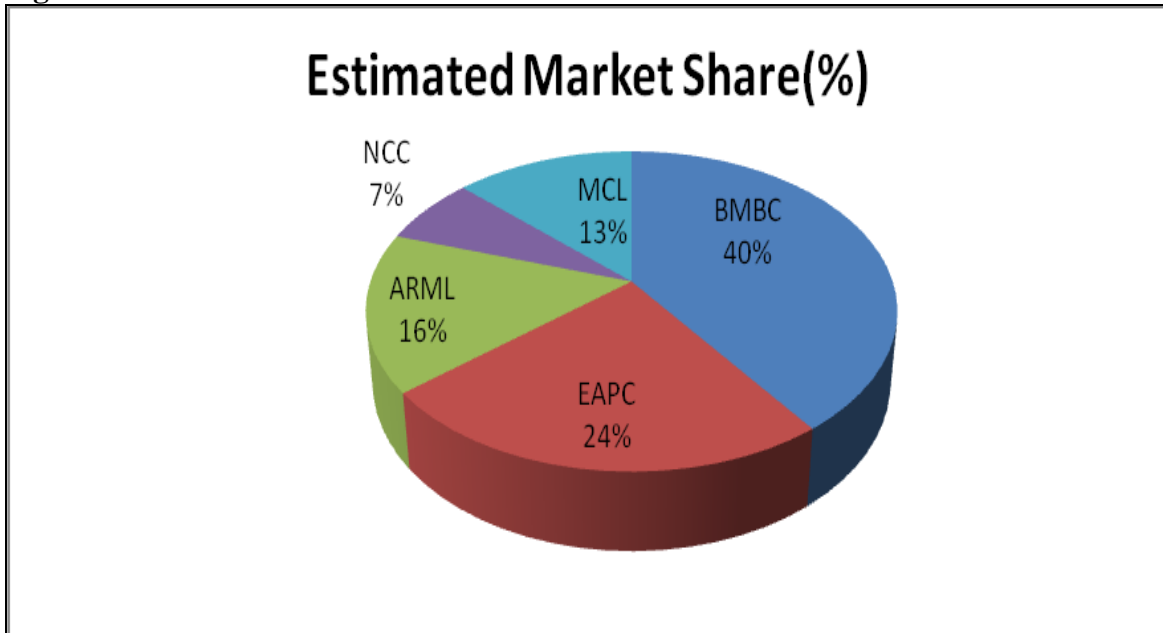
**Table 4. 11: Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.138	1.027		-1.108	.349
	Representation	.570	.086	.915	6.647	.007
	Ordering	.137	.213	.088	.641	.567
a. Dependent Variable: Distribution						

#### 4.6 Influence of Distribution Service Performance on Market Share

According to a report by Dyer and Blair in 2012, the estimated market share for five cement manufacturing companies were as follows; National Cement Company (7%), Mombasa Cement Company (13%), Bamburi Cement Company (40%), East Africa Portland Cement (24%) and Arthi River Mining Limited (16%). This information is presented in figure 4.1.

**Figure 4. 1: Estimated Market Share**



*Source: EAPC Annual Report 2012 Dyer and Blair Estimates*

Savannah Cement Company was not included in the estimated market share as it started its operations in 2013. Domestic market share evolution was obtained from East Africa Cement Sector Valuation Update of 2013 prepared by Standard Investment Bank. It shows changes in market share estimates in 2011, 2012 and 2015. In 2015, estimates for all the six cement manufacturing companies in Kenya are available as shown in table 4.12. These estimates were used to correlate distribution service performance and market share.

**Table 4. 12: Evolution of domestic market share**

Kenya	2011E	2012E	2015F
Bamburi Co. Ltd	40.5%	39.0%	32.0%
EAPC Co. Ltd	24.0%	20.0%	20.0%
ARM Ltd	14.5%	18.0%	16.0%
Mombasa Cement Ltd	13.0%	15.0%	15.0%
National Cement Ltd	8.0%	8.0%	10.0%
Savannah Cement Ltd	-	-	7.0%

\*E-Estimate\*F-Forecast

*Source: Standard Investment Bank; East Africa Cement Sector Valuation Update (2013)*

In table 4.13 secondary data for estimated market share of cement companies in Kenya was used for correlation with distribution service performance. The results show that distribution service performance was positively correlated to market share ( $r_s=0.829$ ). This is a substantial figure. It implies that for a unit increase in distribution service performance, market share increased with a factor of 0.829. This correlation was statistically significant at 95% confidence level ( $p=0.042$ ). Therefore, the changes in market share can be attributed to distribution service performance which was in turn influenced by efficiency in representation and ordering in the cement manufacturing companies in Kenya.

**Table 4. 13: Distribution service performance and Markets Share Correlation**

			Distribution service performance	Markets Share
Spearman's rho	Distribution service performance	Correlation Coefficient	1.000	.829*
		Sig. (2-tailed)	.	.042
		N	6	6
	Markets Share	Correlation Coefficient	.829*	1.000
		Sig. (2-tailed)	.042	.
		N	6	6

\*. Correlation is significant at the 0.05 level (2-tailed).

#### **4.7 Discussion of Findings**

The results show that representation contributes positively to distribution service performance. The results also show that ordering contributes positively to distribution service performance. These results conform to observations by Liu *et al.* (2007) who argued that service performance is measured in different ways that include order visibility, customer experience, availability, return-ability, product variety and response time.

Liu (2008) recommended that companies that target clients who can withstand longer response time need some locations that are not very close to the clients and can dwell much on increasing capacity of such locations. Companies that target clients with short response time, on the other hand need to be close to their clients. Therefore, as response time reduces, serves to increase the customers' desire and in turn the facilities in the network also needs to increase.

Distribution service performance was strongly and positively correlated to market share. The changes in market share can be attributed to distribution service performance which was in turn influenced by efficiency in representation and ordering in the cement manufacturing companies in Kenya. The results are in agreement with Lee *et al.* (1997) who considered models where retailers have fixed order intervals.

Lee *et al.* (1997) argued that information sharing can improve supply chain performance. Various supply chain objectives that ranges between high responsiveness and high cost can be achieved by good distribution. Companies therefore need to select their distribution networks carefully to ensure efficiency and effectiveness in their distribution service performance which will eventually improve market share and profitability.

## **CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

The summary of the study is presented in this chapter. This chapter comprises of a brief of how the study was carried out and the results obtained. Conclusions are made on the basis of findings obtained in the study. The recommendations are also derived from the findings of the study. They entail suggestions for further research and suggestions with impact on practice.

### **5.2 Summary of the Study**

This study attempted to establish the effect of representation and ordering on distribution service performance and its overall influence on market share in the Kenya's cement industry. The study revealed that cement manufacturing companies provide adequate representation in the market. The study also established that competition leads to greater representation. The findings of this study also show that cement manufacturing companies are enhancing technology for representation. This study also revealed that effective communication improves ordering in cement manufacturing companies.

The study established that ordering could lead to low cost and high responsiveness for cement manufacturing companies in Kenya. This study established that representation as denoted by effective visits by a sales representative and ordering characterized by accessibility, accuracy, processing and assistance, are important to cement manufacturing companies. Cement manufacturers rated their performance as very good in representation and distribution while performance on ordering was rated as average.

### **5.3 Conclusions**

This study concludes that cement manufacturing companies have invested in representation in the market and that as competition grows, greater representation for cement manufacturing companies is expected. This study also concludes that effective communication is critical for improving ordering in cement manufacturing companies.

It further concludes that improved ordering performance could lead to low cost and high responsiveness for cement manufacturing companies in Kenya. The study therefore

concludes that representation is important for cement manufacturing companies as it significantly contributes to distribution service performance in cement manufacturing companies. The changes in market share can be attributed to distribution service performance which was in turn influenced by efficiency in representation and ordering in the cement manufacturing companies in Kenya.

#### **5.4 Recommendations**

This study found that cement manufacturing companies in Kenya have not adequately adopted representation and efficient ordering systems. It is therefore recommended that cement manufacturing companies in Kenya should enhance their representation in the market in order to improve their distribution service performance. The study also recommends that cement manufacturing companies in Kenya should improve on communication for effective ordering. This is because efficient ordering procedures positively contributes to distribution service performance for cement manufacturing companies. Adoption of technology in the ordering procedures is yet to be fully enhanced. It therefore recommends that cement companies should fully integrate their ordering procedures with modern technology so as to optimize their efficiency. Furthermore, adequate representation increases the companies' visibility in the market and also improves on the relationships with their customers. These will in turn contribute to shaping up their market shares.

#### **5.5 Suggestions for Further Research**

It is recommended by this study that further research should be done to compare influence of representation and ordering in other sub-sectors of manufacturing and more specifically in the retail markets. Future scholars should develop a framework for balancing optimal conditions to improve distribution service performance for manufacturing companies in Kenya.

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**APPENDICES**

**Appendix i: Letter of Introduction**

The Public Relations Manager

.....

Dear Respondent,

**RE: REQUEST FOR DATA**

I am a finalist student at The University of Nairobi pursuing a Master of Science in marketing program. In partial fulfilment of the requirements for the award of the MBA degree, I am undertaking a study titled *“The Influence of Distribution Service Performance on Market Share in the Cement Industry in Kenya”*

Kindly complete this questionnaire by ticking the appropriate options and filling the provided spaces. The information you provide will be treated with utmost confidentiality and used for academic purposes only.

Yours Sincerely,

**Fredrick Masiga**

Tuesday, 14 July 2016

## Appendix ii: Research Questionnaire

### Section 1: Respondents personal information

Please answer the following questions as honestly as possible.

1. What is your Gender?  
Male ( )                      Female ( )
2. Which Position /Title do you hold in the Company.....
3. What is your education level?  
Secondary Education ( )    College Diploma ( )    University Degree ( )  
Master's Degree ( )    PhD Degree ( )
4. How long have you been with the organization?  
Less than 3 years ( )  
4-6 years ( )  
7-9 years ( )  
Over 10 years ( )

### Section 2: Company profile

5. What is the name of your company? .....
6. How long has the company been in service?  
Less than 5 years ( )  
5-10 years ( )  
10-15 years ( )  
15-20 years ( )  
Over 20 years ( )
7. What is your company's annual production capacity?
8. Does your company face competition?  
Yes ( )    No ( )

### Section 3: The Influence of Distribution Service Performance on Market Share in the Cement Industry in Kenya

- a) With regard to representation, to what extent do you agree with the following statements in the Cement companies in Kenya? Use a scale of 1-5 where 1=no extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

	<b>Representation</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
a	We provide adequate representation in the market					
b	There is competition in representation among					
c	The company is enhancing technology for representation					
d	Effect of company history impacts representation					
e	Competition leads to greater representation					

- b) With regard to Ordering, to what extent do you agree with the following in the Cement companies in Kenya? Use a scale of 1-5 where 1=no extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

	<b>Ordering</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
a	Ordering is computerised					
b	Effective communication improves ordering					
c	There is scheduled ordering policies					
d	Ordering can lead to low cost and high responsiveness					
e	We have fixed order intervals					

- c) Rating of Value Proposition

The following list of attributes represents the total value proposition offered by cement producers. On a scale of 1 to 5, please indicate the importance of each dimension for the successful operation of your business where 1= 'not important at all' and 5= 'extremely important'. You may also indicate the importance with any number between 1 and 5.

<b>Please rate the importance of</b>	<b>No value added    A lot of value added</b>				
<b>Representation</b> (effective visits by a sales representative)	1	2	3	4	5
<b>Ordering</b> (accessibility, accuracy, processing and assistance)	1	2	3	4	5

d) Value Score per Cement Manufacturer

What is your rating for your company in terms of performance in the following areas?

	1	2	3	4	5
<b>Representation</b>	Excellent	Very Good	Average	Below Average	Don't Know
<b>Ordering</b>	Excellent	Very Good	Average	Below Average	Don't Know
<b>Distribution</b>	Excellent	Very Good	Average	Below Average	Don't Know

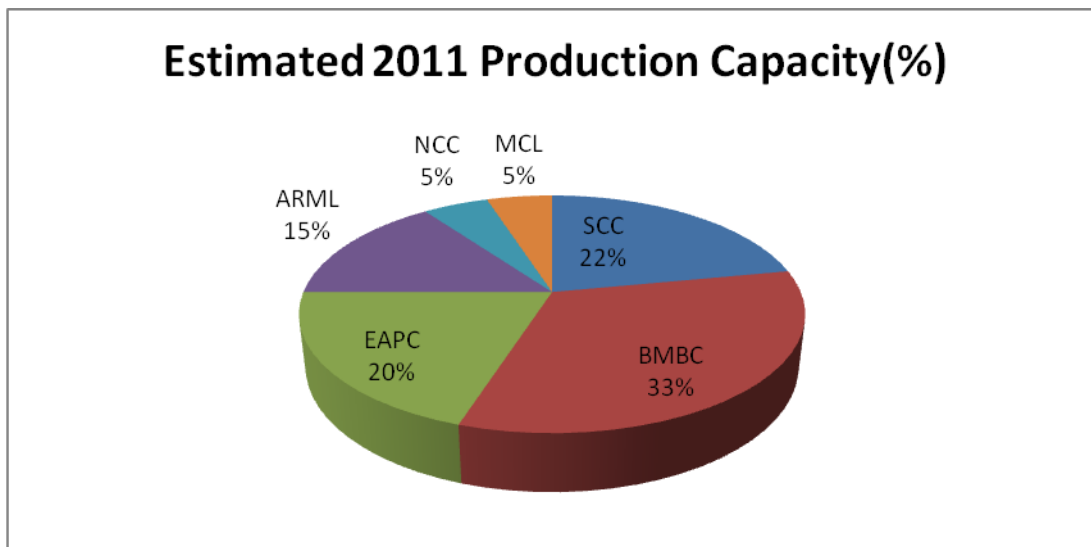
*Thank you for the time and effort taken to fill this questionnaire.*

### Appendix iii: List of Cement Companies in Kenya

<b>CEMENT COMPANY</b>	<b>MINES</b>	<b>CEMENT BRAND</b>
Bamburi Cement Limited (BMBC)	Mombasa	Nguvu
Athi River Mining Limited (ARML)	Athi River	Rhino
East African Portland Cement Company Limited (EAPC)	Athi River	Blue Triangle
National Cement Company (NCC)	Lukenya	Simba
Mombasa Cement Limited (MCL)	Athi River	Nyumba
Savannah Cement Company (SCC)	Athi River	Savannah

*Source: Company fillings, Press reports and Dyer and Blair Estimates (2012)*

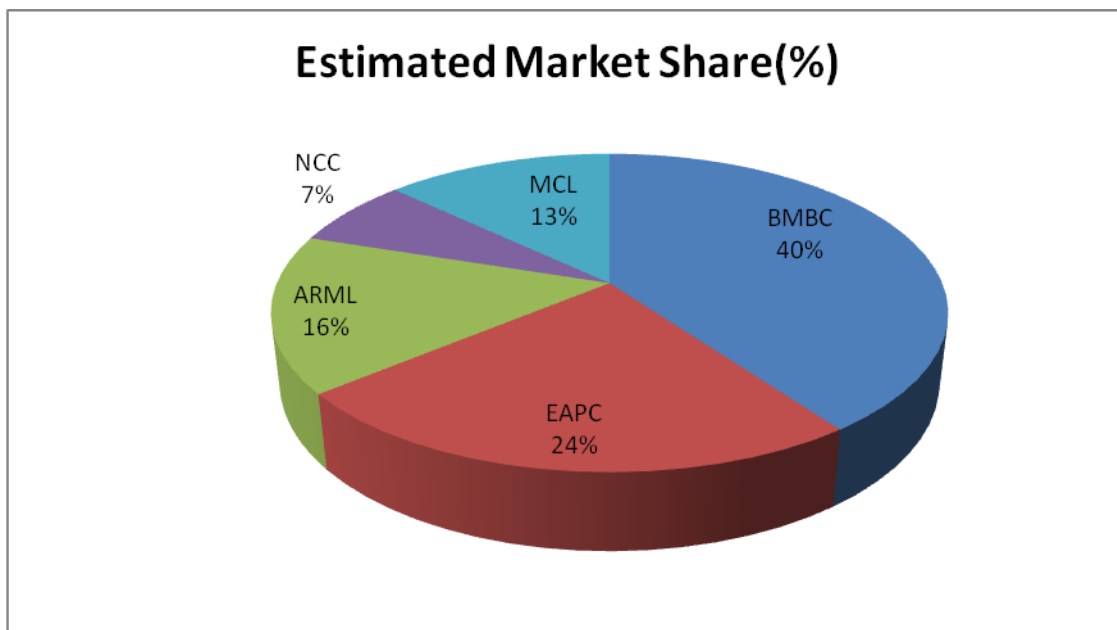
**Appendix iv: Estimated Production Capacity of Cement Companies in Kenya**



*Source: Company fillings, Press reports and Dyer and Blair Estimates (2012)*



**Appendix v: Estimated Market Share of Cement Companies in Kenya**



*Source: EAPC Annual Report 2012 Dyer and Blair Estimates*

## Appendix vi: Domestic Market Share Evolution

<b>Kenya</b>	<b>2011E</b>	<b>2012E</b>	<b>2015F</b>
<b>Bamburi</b>	40.5%	39.0%	32.0%
<b>EAPC</b>	24.0%	20.0%	20.0%
<b>ARM</b>	14.5%	18.0%	16.0%
<b>Mombasa Cement</b>	13.0%	15.0%	15.0%
<b>National Cement</b>	8.0%	8.0%	10.0%
<b>Savannah Cement</b>	-	-	7.0%

\*E-Estimate\*F-Forecast

*Source: Standard Investment Bank; East Africa Cement Sector Valuation Update (2013)*

## Appendix vii: Data Collection Authorization Letter



**UNIVERSITY OF NAIROBI**  
**SCHOOL OF BUSINESS**  
**MSc MARKETING PROGRAMME**

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P.O. Box 30197  
Nairobi, Kenya

DATE 13/July/2016

**TO WHOM IT MAY CONCERN**

The bearer of this letter FREDRICK MASIGA PANYARO

Registration No. D65/81797/2012

is a bona fide continuing student in the Master of Science in Marketing degree program in this University.

He/she is required to submit as part of her coursework assessment a research project report on a marketing related problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

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

Thank you.

**PATRICK NYABUTO**  
**SENIOR ADMINISTRATIVE ASSISTANT**  
**SCHOOL OF BUSINESS**

